Vietnam Manufacturing and Export Processing (Holdings) Limited

越南製造加工出口(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 422)

Annual Report 2008

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chang Kwang Hsiung *(Chairman)*
Mr. Chen Pang Hsiung *(Chief Executive Officer)*
Mr. Lee Hsi Chun *(Chief Financial Officer)*
Mr. Wang Ching Tung

Non-executive Directors

Mr. Huang Kwang Wuu
Mr. Liu Wu Hsiung Harrison

Independent Non-executive Directors

Mr. Hsu Nai Cheng Simon
Ms. Lin Ching Ching
Mr. Wei Sheng Huang

AUTHORISED REPRESENTATIVES

Mr. Lee Hsi Chun
Mr. Chan Chi Shing

AUDIT COMMITTEE

Ms. Lin Ching Ching *(Chairman)*
Mr. Hsu Nai Cheng Simon
Mr. Wei Sheng Huang

REMUNERATION COMMITTEE

Mr. Wei Sheng Huang *(Chairman)*
Mr. Hsu Nai Cheng Simon
Mr. Huang Kwang Wuu

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Chi Shing

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Section 5, Tam Hiep Ward
Bien Hoa City
Dong Nai
Vietnam

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2106, 21/F, Technology Plaza
651 King's Road, North Point
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Norton Rose Hong Kong

COMPLIANCE ADVISER

Access Capital Limited

PRINCIPAL BANKERS

Australia & New Zealand Bank
Vietcom Bank
Asia Commercial Bank
The Hongkong and Shanghai Banking Corporation Limited
Merrill Lynch (Asia Pacific) Limited

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) PR Group

STOCK CODE

422

WEBSITE

www.vmeph.com

Financial Summary

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for the last five financial years:

	Years ended 31 December				
	2008	2007	2006	2005	2004
	US$'M	*US$'M*	*US$'M*	*US$'M*	*US$'M*
RESULTS					
Revenue	**216.8**	259.7	184.3	183.8	261.0
Gross profit	**48.1**	67.2	44.2	40.6	69.7
Profit from operating activities	**4.7**	30.6	22.2	15.6	44.0
Profit before income tax	**12.1**	34.9	25.9	18.2	47.9
Profit attributable to equity holders	**8.0**	31.0	23.3	16.5	43.0
Earnings per share *(US$)* *(Note 1)*	**0.009**	0.042	0.03	0.02	0.06
ASSETS AND LIABILITIES					
Total assets	**235.9**	252.7	171.3	171.5	179.3
Total liabilities	**63.9**	62.7	48.1	49.2	63.0
Net assets	**172.0**	190.0	123.2	122.3	116.3
Equity attributable to equity holders	**172.0**	189.5	122.8	121.9	115.9
Return on equity *(%)*	**4.4**	19.8	19.0	13.5	36.9
Current ratio *(times)* *(Note 2)*	**3.0**	3.3	2.6	2.5	2.1
Gearing ratio *(%)* *(Note 3)*	**23.2**	7.1	14.0	15.5	10.5

Note:

1. The calculation of earnings per share for the year ended 31 December 2008 is based on the profit attributable to shareholders and the weighted average number of ordinary shares in issue (i.e. 907,680,000 shares) during the year. The calculation of basic earnings per share for the years ended 31 December 2004, 2005, 2006 and 2007 are based on the profits attributable to shareholders for the respective years and on the assumption that 732,000,000 shares were deemed to have been issued or issuable throughout the relevant periods, comprising 58,560,000 shares in issue as at the date of the prospectus of the Company and 673,440,000 shares to be issued pursuant to the capitalisation issue.

2. Current ratio is calculated by dividing current assets by current liabilities.

3. Gearing ratio is equal to total interest-bearing borrowings divided by total equity times 100%.

Chairman's Statement

On behalf of the board of directors (the "Board") of Vietnam Manufacturing and Export Processing (Holdings) Limited ("VMEPH" or the "Company", and with its subsidiaries collectively the "Group"), I wish to sincerely extend my appreciation to each shareholder for its support to the Company. I hereby present with pleasure the annual report of the Company and its subsidiaries for the year ended 31 December 2008.

2008 was indeed a challenging time for VMEPH as it was for nearly all enterprises and individuals around the world. We saw the global economy experience a severe downturn in the second half of 2008 following the sub-prime predicament in the United States of America. As a result, countries everywhere are faced with growing uncertainties about their economies given the current unstable global credit environment.

Vietnam, our principal market, has also been hit by inflationary pressures, falling commodity prices and sluggish domestic demand, which are adversely affecting our overall business environment. However, with the unyielding dedication from all levels of our management and staff, we have swiftly implemented a host of strategic measures to mitigate the impact of these turbulent times by strengthening our internal controls and operational efficiency. Moreover, we have enhanced our distribution network to create long-term value for the Group's future developments.

In addition, we have bolstered our efforts to diversify into other countries which are members of the Association of South East Asian Nations ("ASEAN") in the belief that this broader market expansion will help enable the Group to weather the challenges ahead. To this end, encouraging progress has already been achieved with sales overseas increasing by 13%, marking a significant step towards the expansion of our reach into markets beyond Vietnam's borders. Leveraging on our long established presence in the market as well as our extensive operational knowledge and experience in Vietnam, we are well-positioned to capture the wide range of business opportunities available throughout the ASEAN region.

For the year ended 31 December 2008, the Group recorded revenues of US$216.8 million, representing a decrease of 17% as compared with the revenues for the year ended 31 December 2007. Profit attributable to equity holders of the Group for the year ended 31 December 2008 was US$8.0 million, representing a decrease of 74% as compared with the profit attributable to equity holders of the Group for the year ended 31 December 2007. Basic earnings per share for the year ended 31 December 2008 came to US$0.009. These decreases are attributable to the general slowdown in domestic demand for motorbikes in Vietnam, as well as soaring oil prices and increased market competition throughout Vietnam during the second half of 2008. As at the balance sheet date, the Group had available-for-sale financial assets, cash equivalents and bank balances which amounted to US$75.6 million and US$60.3 million, respectively. The financial condition of the Group is sound and we have the capabilities to develop our business further in the future.

Despite the challenging economic environment, the Group has been able to maintain a leading position in the scooter and cub motorbike market in Vietnam. The Group's SYM and SANDA brand names, under which its scooters and cubs are marketed, continue to be regarded as renowned and reputable brand names throughout the industry and among our customers.

Developing unique products to meet our customers' needs is crucial to our overall success. Hence, we will further increase our investment in research and development while enhancing our product brands and customer services. In addition, we aim to continue developing new motorbike models to satisfy the ever-changing consumer needs and demands. A number of new motorbike models targeting different customer segments are now being developed and will be launched in 2009.

Looking forward, we remain focused on maintaining stringent cost controls and improving operational efficiency. Governments across the region are attempting to restore investor and consumer confidence in their own economies through the implementation of comprehensive stimulus packages to combat the effects of the global downturn. We believe that there are many unexplored opportunities throughout the ASEAN region with a potential for growth in the consumer market. Supported by our strong research and development capabilities, vast product range and an extensive distribution network, we are confident in our ability to further strengthen our established presence in Vietnam and other ASEAN countries, and secure new opportunities as they arise.

The current global economic situation will inevitably have an adverse impact on consumer spending. However, the fundamental strengths of our business coupled with the commitment of the governments of the ASEAN countries to stimulate their economies give us optimism for our future business prospects. We will continue to take a growth-oriented, low-risk approach to develop our business in the ASEAN region in order to foster sustainable growth and maximise returns for our shareholders.

Chairman's Statement

In today's increasingly competitive market environment, our dedicated staff serve as our most valuable asset. On behalf of the Board, I would like to express my sincere gratitude to all our employees for their dedication, hard work and loyal service, and to our shareholders, customers, dealers, suppliers and business partners for their continued support and trust throughout the year.

By order of the Board
Chang Kwang Hsiung
Chairman

Hong Kong, 30 March 2009

Management Discussion and Analysis

The Group is one of the leading manufacturers of scooter and cub motorbikes in Vietnam. Its manufacturing and assembly operations are located in Dong Nai Province and Ha Tay Province of Vietnam. In February 2008, these facilities were awarded ISO 14001 certification for their environmental management systems.

Offering a wide range of models, the Group's motorbikes are sold under the SYM and SANDA brand names. The Group also produces motorbike engines and parts for internal use and export and provides services in relation to moulds for making die-cast and forged metal parts.

BUSINESS REVIEW

Vietnam's economy was affected by the global and domestic economic turmoil of 2008. Despite inflationary pressures during the first half of 2008, the Vietnamese motorbike market reported double-digit percentage growth driven by growing domestic demand. Persistent efforts to enhance operational efficiency through stringent cost control measures allowed the Group to achieve satisfactory growth in both revenues and profits over the first half of 2008.

However, Vietnam's motorbike market experienced a rapid downturn in the second half of 2008 with soaring oil prices and heightened market competition as the sub-prime crisis in the US intensified, creating a negative impact on the Group's business operations. Many foreign-owned motorbike manufacturers bolstered their efforts to develop the Vietnam market following the global economic slowdown in the second half of 2008. In response, to help broaden its revenue sources, the Group began placing greater emphasis on developing motorbike markets in other countries which are members of the Association of South East Asian Nations ("ASEAN") during 2008 and its overseas sales in 2008 increased by 13% as compared to its overseas sales in 2007.

To help overcome today's current challenging environment, the Group employed a series of measures to improve inventory levels, strengthen cost controls and enhance operational efficiency. Furthermore, the Group has dedicated additional resources toward enhancing its research and development capabilities to provide better value-added products for its customers.

During 2008, the Group strengthened its distribution network with the opening of 20 additional stores, including 6 flagship outlets. As at 31 December 2008, the Group's extensive distribution network comprised over 285 SYM-authorised stores owned by dealers, covering every province in Vietnam. In terms of international markets, the Group's products are sold overseas in Brunei, Malaysia, Myanmar, Indonesia, Singapore and the Philippines.

FINANCIAL REVIEW

Amidst sluggish sales demand and tight credit policies generally in Vietnam, the motorbike market in Vietnam has been facing an increasingly difficult operating environment. The Group's revenue decreased by US$42.9 million or 17%, from US$259.7 million for the year ended 31 December 2007 to US$216.8 million for the year ended 31 December 2008, and the Group's net profit after tax was US$8.0 million for the year ended 31 December 2008 as compared with US$31.0 million for the year ended 31 December 2007. To mitigate the adverse impact on its operations, the Group has maintained strict controls over its operating costs and capital expenditures.

REVENUE

Revenue of the Group for the year ended 31 December 2008 decreased by US$42.9 million, or 17%, to US$216.8 million from US$259.7 million for the year ended 31 December 2007. This decrease was due to sluggish domestic demand in Vietnam during the second half of 2008. In particular, domestic sales quantities of scooters decreased by 22% for the year ended 31 December 2008 as compared with the year ended 31 December 2007, while overall sales quantities decreased by 19% for the same comparative period. Sales of scooters continued to be the Group's major profit driver, accounting for 64% of total sales. In terms of geographical contribution, approximately 89% of total sales were generated from the domestic market in Vietnam for the year ended 31 December 2008.

COST OF SALES

The Group's cost of sales decreased by 12%, from US$192.6 million for the year ended 31 December 2007 to US$168.7 million for the year ended 31 December 2008. This decrease was primarily due to lower sales volumes and stringent controls over costs through increasing the usage of components sourced locally. As a percentage of total revenue, the Group's cost of sales increased from 74% for the year ended 31 December 2007 to 78% in the year ended 31 December 2008.

Management Discussion and Analysis

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors discussed above, the gross profit of the Group decreased by 28%, from US$67.2 million for the year ended 31 December 2007 to US$48.1 million for the year ended 31 December 2008. Between such comparative period, the Group's gross profit margin decreased from 26% to 22%, mainly due to sluggish sales of higher margin scooters as compared to cubs which have relatively lower margins.

DISTRIBUTION EXPENSES

The Group's distribution expenses increased by 6%, from US$19.1 million for the year ended 31 December 2007 to US$20.3 million for the year ended 31 December 2008. This increase was in line with the rise in advertising and marketing fees for the enhancement of the image of the Group's brands as well as higher sales incentives and supporting fees to distributors for organising marketing activities and renovating flagship stores.

TECHNOLOGY TRANSFER FEES

The technology transfer fees decreased by 13%, from US$6.0 million for the year ended 31 December 2007 to US$5.2 million for the year ended 31 December 2008. This decrease was largely due to a decrease in the sales volume of SYM-branded motorbikes and related parts.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 47%, from US$10.6 million for the year ended 31 December 2007 to US$15.6 million for the year ended 31 December 2008, accounting for 7% of the Group's total revenue for the year ended 31 December 2008. This was attributable to an increase in: (i) salary expenses in connection with a surge in staff costs in the labour market; (ii) equity settled share-based payment expenses attributable to the valuation of granted share options; and (iii) legal and compliance expenses in connection with the status of the Company as a listed company on the main board of the Stock Exchange.

PROFIT FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's profit from operating activities decreased by 85%, from US$30.6 million for the year ended 31 December 2007 to US$4.7 million for the year ended 31 December 2008.

NET FINANCIAL INCOME

The Group's net financial income increased by 78%, from US$4.1 million for the year ended 31 December 2007 to US$7.3 million for the year ended 31 December 2008. This increase was mainly attributable to a significant increase in interest income. However, this was partly offset by an increase in exchange losses for the year ended 31 December 2008 compared with an exchange gain for the year ended 31 December 2007, as the exchange rate of the Vietnam Dong against the US dollar decreased during 2008.

PROFIT FOR THE YEAR AND PROFIT MARGIN

As a result of the factors discussed above, the Group's profit for the year, after income tax, decreased by 74%, from US$31.0 million for the year ended 31 December 2007 to US$8.0 million for the year ended 31 December 2008, and the Group's net profit margin decreased from 12% for the year ended 31 December 2007 to 4% for the year ended 31 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group's net current assets amounted to US$125.5 million (31 December 2007: US$145.5 million) which consisted of current assets amounting to US$189.4 million (31 December 2007: US$208.2 million) and current liabilities amounting to US$63.9 million (31 December 2007: US$62.6 million).

As at 31 December 2008, the interest-bearing borrowings repayable within one year was US$39.8 million, of which US$15.1 million was denominated in US$ and US$24.7 million was originally denominated in HK$ (31 December 2007: US$13.4 million which was denominated in US$). As at 31 December 2008, the Group had interest-bearing borrowings repayable beyond one year amounting to US$0.04 million which was denominated in US$ (31 December 2007: US$0.07 million which was denominated in US$). As at 31 December 2008, the gearing ratio was 23% (31 December 2007: 7%) calculated by dividing total interest-bearing borrowings by total equity.

As at 31 December 2008, the cash and bank balances (including pledged bank deposits), amounted to US$60.3 million, including US$38.6 million which was originally denominated in Vietnam Dong, US$12.3 million which was denominated in US$, US$5.0 million which was originally denominated in HK$ and US$4.3 million which was originally denominated in NTD (31 December 2007: US$148.8 million, including US$63.0 million which was originally denominated in Vietnam Dong, US$81.0 million which was denominated in US$, US$nil which was originally denominated in HK$ and US$4.8 million which was originally denominated in NTD).

Management Discussion and Analysis

As at 31 December 2008, the Group had placed with a reputable financial institution available-for-sale financial assets amounting to US$75.6 million (31 December 2007: US$nil) which were mainly denominated in US$. These financial assets include ABS which amounted to US$68.1 million and mutual funds which amounted to US$7.5 million. Such financial assets predominantly had a credit rating of AAA or AAAm and were not credit-impaired. Due to the deterioration of the capital market in the US, the liquidity of the market for the ABS began to fall in the beginning of 2008. Subsequent to the end of the year ended 31 December 2008, the Group re-sold all ABS at par as they were informed by the financial institution that it has reached a resolution with the securities regulators of the US to buy back ABS from its clients by January 2009. The Board is of the opinion that the ABS did not have a material adverse impact on the Group's liquidity and consolidated financial performance.

The Board is of the opinion that the Group will be in a healthy financial position and has sufficient resources to satisfy its working capital requirements and for its foreseeable capital expenditure.

PLEDGE OF ASSETS

As at 31 December 2008, pledged bank deposits amounting to US$7.9 million (2007: US$9.8 million) and ABS amounting to US$68.1 million (2007: US$nil) were pledged with banks as security for certain banking facilities.

EXPOSURE TO FOREIGN EXCHANGE RISK

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in Vietnam Dong or US dollars. The Group did not enter into any financial derivative instruments to hedge against the foreign exchange currency exposures. The Vietnam Dong has been depreciating since April 2008, but the Vietnam government has managed to stabilise it by adopting stringent fiscal and monetary measures. The reform of the Vietnam Dong exchange rate regime benefited the Group as a whole as the revenue from the business operations of the Group is mainly denominated in Vietnam Dong.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2008, the capital commitments of the Group amounted to US$11.0 million which will all be paid off using the proceeds from the initial public offering ("IPO") of the shares of the Company in connection with its listing on the main board of the Stock Exchange and cash generated from the Group's operations.

Other than the contingent liability set out in note 29 to the financial statements, the Group had no significant contingent liabilities as at 31 December 2008.

CONTINGENT ASSET

As disclosed in Note 29, during the year, a fire broke out in one of VMEP's factories and has resulted in losses to the Group's inventories and property, plant and equipment. The Group submitted an insurance claim of approximately US$3 million in September 2008 for the losses. Up to the date of issue of these financial statements, the Group has not received a written confirmation from the insurance company as to agreement to the claim. No asset is recognised in respect of this insurance claim.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group currently offers competitive remuneration packages to its staff in Vietnam, Taiwan and Hong Kong, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, share options, quality staff living quarters, training and development opportunities, medical benefits, an insurance plan and retirement benefits. As at 31 December 2008, the Group had 1,844 employees (2007: 2,178). The total amount of salaries and related costs for the year ended 31 December 2008 amounted to US$12.1 million (2007: US$9.6 million).

CONTRIBUTION TO VIETNAM'S SOCIETY

The Group has been actively participating in and supporting various charity programmes. As a part of the Group's philanthropic efforts in 2008, the Group supported initiatives relating to new construction projects in rural areas, education and public welfare.

Management Discussion and Analysis

With an objective of improving the transportation network in rural areas in Vietnam, the Group began an initiative in 2006 in relation to the construction of bridges in Vietnam. By March 2008, 100 bridges were constructed in connection with this initiative. This initiative not only provided rural local residents with a more convenient and safe transportation network, it also helped to boost the development of the local economy. In 2008, the Group also offered assistance to over 10,000 underprivileged people by providing educational grants to students in need and basic necessities to the poor, as well as granting medical subsidies to the needy.

In response to the earthquake in Sichuan which occurred in May 2008, the Group made cash donations to support the reconstruction of damaged areas.

PROSPECTS

In light of the continued dedication of the Vietnamese government to stimulate the country's economic growth and enhance its competitiveness, the Group is optimistic about the medium-term outlook of Vietnam's general economic conditions and its motorbike industry in particular. Motorbikes remain the dominant preferred mode of transport in Vietnam due to an absence of any sophisticated public transport system as well as poor public road networks throughout the country.

Faced with a challenging economic environment ahead, the Group will continue to implement prudent business strategies for its future development with the aim of consolidating its leading position in the motorbike manufacturing industry in Vietnam. To capture greater business opportunities, the Group will also put forth greater efforts to develop and introduce new scooter models, targeting different consumer market segments in order to broaden its product portfolio and strengthen market penetration.

The Group's new research and development centre in Dong Nai Province is currently under construction and is expected to commence operations in 2009. This approximately 300,000 square metres facility will include a test-drive circuit for motorbikes and other motor vehicles along with the latest emissions testing equipment. With this advanced equipment, the Group will be able to carry out advanced research projects, which shall further enhance the Group's research and development capabilities to meet the ever changing demands and needs of consumers.

In today's increasingly competitive market, brand value is vital to the success of any product. Looking ahead, the Group will strengthen its marketing efforts to enhance their overall brand image. In addition, the Group will implement stringent cost control measures to improve operational efficiency as well as strengthen its distribution network in both Vietnam and throughout the ASEAN region. Leveraging on over 15 years of extensive experience in the Vietnam scooter business, the Group remains well poised and confident to reap the rewards of ample business opportunities currently available throughout the ASEAN region.

Capitalising on its strengths coupled with its comprehensive future plans, the Group is confident that it will achieve good results and maximise returns to the shareholders (the "Shareholders") of the Company.

APPLICATION OF IPO PROCEEDS

The proceeds from the IPO of the Company in December 2007, net of listing expenses, amounted to US$76.7 million. As at 31 December 2008, such net proceeds were utilised in the following manner:

	Per prospectus *US$' million*	**Amount Utilised** *US$' million*	**Balance as at 31 December 2008** *US$' million*
Construction of research and development centre in Vietnam	15.0	4.8	10.2
Expanding distribution channels in Vietnam, of which:			
– Upgrading of existing facilities	4.0	3.7	0.3
– Establishing of new facilities	46.0	–	46.0
Mergers and acquisitions	9.0	1.7	7.3
General working capital	2.7	2.7	–
Total	76.7	12.9	63.8

The unutilized balance was placed in available for-sale financial assets with a reputable financial institution. For further details, please see the paragraph above headed "Liquidity and Financial Resources".

Management Discussion and Analysis

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, having considered, amongst other things, the findings of reviews and/or audits conducted by independent professional parties, the Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the financial year ended 31 December 2008.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiry, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the financial year ended 31 December 2008.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2008 have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of US$0.0026 per share (equivalent to HK$0.02 per share) for the year ended 31 December 2008 which is expected to be paid on or before 14 May 2009 to the Shareholders whose names appear on the register of members of the Company at the close of business on 6 May 2009, subject to final approval at the annual general meeting (the "Annual General Meeting") of the Company to be held on 13 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2009 to 13 May 2009 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30p.m. on 5 May 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2008, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the Company's website at www.vmeph.com. The annual report 2008 of the Company will also be published on the aforesaid websites in due course.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting will be held on 13 May 2009. Notice of the Annual General Meeting will be published and issued to the Shareholders in due course.

OUR APPRECIATION

Finally, we would like to express our gratitude to the Shareholders and the suppliers and customers of the Group for their unwavering support. We would also like to thank our dedicated staff for their contributions to the success of the Group.

By order of the Board
Vietnam Manufacturing and Export Processing (Holdings) Limited
Chang Kwang Hsiung
Chairman

Hong Kong, 30 March 2009

Corporate Governance Report

The board of directors (the "Board") of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") is always committed to maintaining high standards of corporate governance. During the year ended 31 December 2008, the Company has complied with the principles set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors ("Directors") of the Company. Having made specific enquiry, the Company confirms that the Directors complied with the required standard set out in the Model Code for the year ended 31 December 2008.

THE BOARD OF DIRECTORS

The Board has a balance of skill and experience and a balanced composition of executive and non-executive Directors and is responsible for the oversight of the management of the Group's business and affairs. The Board has delegated the day-to-day operational responsibilities to the executive Directors and senior management of the Company.

The Board members for the year ended 31 December 2008 were:

Executive Directors

Mr. Chang Kwang Hsiung *(Chairman)*
Mr. Chen Pang Hsiung
Mr. Lee Hsi Chun
Mr. Wang Ching Tung

Non-executive Directors

Mr. Huang Kwang Wuu
Mr. Liu Wu Hsiung Harrison

Independent non-executive Directors

Mr. Hsu Nai Cheng Simon
Ms. Lin Ching Ching
Mr. Wei Sheng Huang

The biographical details of all Directors are set out in the "Directors and Senior Management Profile" section set out on pages 15 to 16 of this annual report.

A Board meeting is held at least quarterly, and more frequently as and when business or operational needs arise. Board meetings are also held whenever necessary to discuss various corporate matters including corporate exercises, new major investments and significant changes in regulatory requirements that affect the Group. Board meetings are also held to discuss and review the interim and annual results of the Group for announcement to the Stock Exchange, and to discuss and approve the Group's annual budget and business plans.

There were six (6) Board meetings held during the year ended 31 December 2008 and the number of meetings attended by each Director was as follows:

Name of Directors	Number of Meetings Attended	Percentage of Attendance
Mr. Chang Kwang Hsiung	6/6	100%
Mr. Chen Pang Hsiung	5/6	83%
Mr. Lee Hsi Chun	6/6	100%
Mr. Wang Ching Tung	5/6	83%
Mr. Huang Kwang Wuu	6/6	100%
Mr. Liu Wu Hsiung Harrison	6/6	100%
Mr. Hsu Nai Cheng Simon	5/6	83%
Ms. Lin Ching Ching	5/6	83%
Mr. Wei Sheng Huang	5/6	83%

Corporate Governance Report

Board and committee minutes are recorded in appropriate detail and are kept by the company secretary of the Company. Draft minutes are circulated to Directors for comment within a reasonable period of time after each meeting and the final version is open for the Directors' inspection. If necessary, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expense. The Board shall resolve to provide the Directors with access to independent professional advice to assist the Directors to discharge their duties. The Company has received annual confirmations of independence from all existing independent non-executive Directors and considers them independent.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the Code, the roles of the chairman and the chief executive officer of the Company should be separated and should not be performed by the same individual. The chairman and chief executive officer of the Company are Mr. Chang Kwang Hsiung and Mr. Chen Pang Hsiung, respectively. The roles and responsibilities of the chairman and the chief executive officer of the Company are separated so as to ensure a balance of power and authority. This balance ensures that all matters brought before the Board are fully and objectively discussed, taking into account the interests of shareholders ("Shareholders") of the Company as a whole, including in particular, those of minority Shareholders.

NON-EXECUTIVE DIRECTORS

In line with Code Provision A.4.1 of the Code, the non-executive Directors are appointed for a specific term, subject to re-election at an annual general meeting of the Company in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") which consists of two independent non-executive Directors and one non-executive Director.

The members of the Remuneration Committee for the year ended 31 December 2008 were Mr. Wei Sheng Huang (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Huang Kwang Wuu.

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management of the Company. The Remuneration Committee's authorities and duties are set out in written terms of reference. During the year ended 31 December 2008, the Remuneration Committee met on four (4) occasions where all members attended, except for Mr. Hsu Nai Cheng Simon, who attended three out of the four meetings held. The agenda for each meeting was prepared to deliberate on, review and recommend to the Board the remuneration packages of the executive Directors and senior management of the Company. Each Director abstained from discussing his/her own remuneration.

The terms of reference of the Remuneration Committee are aligned with the relevant provisions under the Code.

The primary duties of the Remuneration Committee include:

(a) considering the Company's policy and structure of remuneration of the Directors and senior management of the Company;
(b) determining the specific remuneration packages of the executive Directors and senior management of the Company;
(c) to recommend for the Board's approval the remuneration of the non-executive Directors of the Company;
(d) reviewing performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
(e) reviewing the compensation payable to the executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment; and
(f) reviewing compensative arrangements relating to dismissal or removal of Directors for misconduct.

Corporate Governance Report

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") which consists of three independent non-executive Directors. The members of the Audit Committee for the year ended 31 December 2008 were Ms. Lin Ching Ching (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Wei Sheng Huang.

During the year ended 31 December 2008, the Audit Committee met on four (4) occasions where all members attended, except for Mr. Hsu Nai Cheng Simon, who attended three out of the four meetings held. The agenda for each meeting was prepared to ensure that each of the Audit Committee's responsibilities was discharged. In addition, the Audit Committee received comprehensive reports from the management team and the internal and external auditors for the meetings held.

The terms of reference of the Audit Committee are aligned with the relevant provisions set out in the Code. The primary duties of the Audit Committee include:

(a) considering the appointment of external auditors and any questions of resignation or dismissal;
(b) discussing with external auditors before the audit commences, the nature and scope of the audit;
(c) reviewing half-year and annual financial statements before submission to the Board;
(d) discussing problems and reservations arising from the audits, and any matters the external auditors may wish to discuss; and
(e) considering and reviewing the Company's system of internal controls.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the roles and functions of such a committee are performed by the Board collectively. The chairman of the Company reviews the composition of the Board from time to time with particular regard to ensuring that there is an appropriate number of Directors on the Board who are independent of management.

AUDITORS' REMUNERATION

The fees in relation to the audit services provided by Messrs. KPMG, the external auditors of the Company, for the year ended 31 December 2008 amounted to US$321,761 (2007: US$95,000).

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the Company and its subsidiaries (the "Group") keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group. The Directors are also responsible for ensuring that the preparation of the financial statements of the Company and the Group for the relevant accounting periods are in compliance with applicable statutory and regulatory requirements and that such financial statements give a true and fair view of the state of affairs, the results of operations and cashflows of the Company and the Group. In preparing the financial statements of the Company and the Group for the year ended 31 December 2008, suitable accounting policies have been adopted and applied consistently. The financial statements of the Company and the Group for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has overall responsibility for the effectiveness of the internal control systems of the Group and monitors such internal control systems through the internal audit department of the Group. The internal audit department of the Group reviews the material controls of the Group on a continuous basis and aims to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

SAFEGUARDING THE INTERESTS OF INDEPENDENT SHAREHOLDERS

Mechanisms are in place to safeguard the interests of independent Shareholders in the decision making process in relation to (i) the deed of non-competition ("Deed of Non-competition") dated 26 November 2007 and entered into between Sanyang Industry Co., Limited, Mr. Huang Shi Hui, the executive and non-executive Directors (collectively, the "Covenantors") and the Company and (ii) the continuing connected transactions entered into by the Group, as described below.

Corporate Governance Report

Deed of Non-competition

The independent non-executive Directors are to review whether or not to pursue or decline any investment or other commercial opportunity referred to the Company by any of the Covenantors under the Deed of Non-competition.

Each of the Covenantors declares that it/he/she has complied with the Deed of Non-competition. Having made specific enquiries with all of the Covenantors, the independent non-executive Directors confirmed the Covenantors' compliance with the Deed of Non-competition.

Continuing connected transactions

The continuing connected transactions entered into by the Group are based on normal commercial terms, are in the ordinary and usual course of business of the Group and are conducted on a fair and reasonable basis.

The independent non-executive Directors review the terms of the continuing connected transactions entered into by the Group on an annual basis to ensure that the terms of such transactions are in the best interests of the Company and its Shareholders as a whole.

The Company's external auditors, Messrs. KPMG, reviews the continuing connected transactions entered into by the Group on an annual basis and provides a letter to the Board confirming (i) the matters set out in Rule 14A.38 of the Listing Rules and (ii) that the amounts for the relevant continuing connected transactions have not exceeded the relevant proposed annual caps.

Details of the continuing connected transactions entered into by the Group during the year ended 31 December 2008 are set out on pages 21 to 23 of this annual report.

INVESTOR AND SHAREHOLDERS RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and the Company's investors. The Board also recognises that effective communication with the Company's investors is the key to establishing investor confidence and attracting new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the Company's investors and the Shareholders are receiving accurate, clear, comprehensive and timely information relating to the Group via the publication of annual reports, interim reports, press announcements, and also via the Company's website at www.vmeph.com.

The Board continues to maintain regular dialogue with institutional investors and analysts to keep them informed of the Group's strategies, operations, management and plans. The Directors and the committee members are available to answer questions through an annual general meeting of the Company. External auditors are also available at such annual general meeting to address Shareholders' queries. Separate resolutions are proposed at such annual general meeting on each substantially separate issue.

Shareholders' Right

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's principal place of business in Hong Kong.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. CHANG Kwang Hsiung (張光雄), age 68, was appointed as an executive Director in August 2007 and as the Chairman of the Company in November 2007. He is also the director of three subsidiaries of the Group, namely, Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), Chin Zong Trading Co., Ltd. ("Chin Zong") and PT Sanyang Industri Indonesia (PT Sanyang). Mr. Chang joined VMEP in February 1993 as general director and was the chairman of VMEP from May 1993 to September 1999. During his years of service at VMEP, he had established extensive connections in the Vietnam motorbike market. Mr. Chang has over 40 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan which he gained through his work experience in the Group and his previous work experience in Sanyang. Mr. Chang was awarded the third level of Labor Model for National Excellent Manufacturing Operation Activities by the Vietnamese government in 2000. Mr. Chang graduated from the National Taipei University of Technology with an undergraduate degree in mechanical engineering in 1962.

Mr. CHEN Pang Hsiung (陳邦雄), age 50, was appointed as an executive Director in August 2007 and as the chief executive officer of the Company in November 2007. Mr. Chen is also the director of various subsidiaries of the Group, namely, VMEP, Chin Zong, Vietnam Casting Forge Precision Limited and C.Q.S. Molds Inc.. He is also a director of Vietnam Three Brothers Machinery Industry Co., Limited. Mr. Chen has been with the Group for approximately 10 years. Prior to joining the Group, Mr. Chen worked in the research and development and overseas marketing management departments of Sanyang. He has over 25 years of experience in the motorbike industry which he acquired through his work experience at the Group and his previous work experience in Sanyang. Mr. Chen was awarded the title of Outstanding Merchant in Vietnam by the Ministry of Industry and Trade and the title of Outstanding Merchant in Dong Nai Province by the Dong Nai Province People's Committee in September and October 2007, respectively. Mr. Chen was also awarded the title of Special Contributor to the Development of Vietnam's Motorbike Industry by the Ministry of Industry and Trade in 2004. Mr. Chen graduated from National Tsing Hua University with an undergraduate degree in mechanical engineering in 1981.

Mr. LEE Hsi Chun (李錫村), age 54, was appointed as an executive Director in August 2007. He is also the chief financial officer of the Company. Mr. Lee joined the Group in May 1997 and has worked in the administration and financial departments of VMEP. He was appointed as the head of such departments in 2002 and as a director of VMEP in November 2007. Prior to joining the Group, he joined Sanyang in 1980 and has acquired over 20 years of experience in the fields of administration, human resources and sales in the motorbike industry. Mr. Lee graduated from the Chung Yuan Christian University with an undergraduate degree in business administration in 1977.

Mr. WANG Ching Tung (王清桐), age 44, was appointed as an executive Director in August 2007. Mr. Wang joined VMEP in February 1993 and since then, he has worked in the sales department of VMEP. In 2002, Mr. Wang was appointed as the head of the sales department of VMEP and became the vice general director of the sales and marketing department of VMEP in 2006. He was also appointed as a director of VMEP in November 2007. He has over 15 years of experience in motorbike sales and marketing. Prior to joining the Group, he worked in the administration department of Sanyang. Mr. Wang graduated from the National Cheng Kong University with an undergraduate degree in industrial design in 1987.

Non-Executive Directors

Mr. HUANG Kwang Wuu (黃光武), age 57, was appointed as a non-executive Director in November 2007. He is a member of the remuneration committee of the Company. Mr. Huang joined VMEP in June 1997 and was a director of VMEP from March 1999 to November 2007. Mr. Huang is also a director of Sanyang and a director of certain subsidiaries of Sanyang in Taiwan, Indonesia and the PRC which engage in the manufacture of motorbikes. Mr. Huang has over 30 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan. Mr. Huang received his undergraduate degree and masters degree in mechanical engineering from National Cheng Kong University in 1973 and 1976, respectively.

Mr. LIU Wu Hsiung Harrison (劉武雄), age 44, was appointed as a non-executive Director in November 2007. Mr. Liu joined the Group in 1996 and worked in the sales department of VMEP. He has over 13 years of experience in trading and export sales of motorbikes and related parts. Mr. Liu is also the vice general director of the overseas business division of Sanyang and is responsible mainly for the export strategy and business of the Sanyang Group. He is also a director of various subsidiaries of Sanyang and a company in India which is listed on the Bombay Stock Exchange and in which Sanyang has a 10.29% interest. Mr. Liu graduated from Feng Chia University with an undergraduate degree in international trade in 1986.

Directors and Senior Management Profile

Independent Non-Executive Directors

Mr. HSU Nai Cheng Simon (徐乃成), age 48, was appointed as an independent non-executive Director in November 2007. He is a member of the remuneration committee and the audit committee of the Company. Mr. Hsu is the chairman and chief executive officer of e-commerce Logistics Group and the chief executive officer of Sino Resources Mining Corporation Limited. He is also an executive vice chairman of United Pacific Industries Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Hsu also sits on the board of various investment holding and trading companies in Asia. Mr. Hsu has over 17 years of executive experience in companies based in the Asia-Pacific region and the United States of America with international clientele in basic industries and finance. Mr. Hsu graduated from the California State University at Northridge with an undergraduate degree in business administration in 1983.

Ms. LIN Ching Ching (林青青), age 44, was appointed as an independent non-executive Director in November 2007. She is the chairman of the audit committee of the Company. Ms. Lin has over 15 years of experience in the finance industry and has held senior financial management positions in various companies, including Deloitte & Touche, Corporate Finance Co., Ltd. and Citibank, N.A., Taipei. Ms. Lin graduated from Eastern Michigan University with a master's degree in business administration in 1991 and graduated from Fu-Jen Catholic University in Taipei with an undergraduate degree in accounting in 1987.

Mr. WEI Sheng Huang (魏昇煌), age 56, was appointed as an independent non-executive Director in November 2007. He is a member of the audit committee of the Company and the chairman of the remuneration committee of the Company. Mr. Wei has over 15 years of experience in the manufacture of motor car parts and related industries. Mr. Wei is the president of Minth Technique Corporation, a company which was established in Taiwan in 1991 and which specialises in the manufacture and sale of motor car parts. Mr. Wei obtained a masters degree in business administration from Hofstra University in 1988 and graduated from the University of Cincinnati in 1981 with a master's degree in computer engineering. Mr. Wei graduated from National Chiao Tung University with an undergraduate degree in electro physics in 1974.

SENIOR MANAGEMENT

Mr. CHANG Hsi Cheng (張錫正), age 49, is the vice general director of the production department of VMEP. Mr. Chang joined the Group in 2006. He has over 25 years of experience in the fields of research and product development in the motorbike industry. Mr. Chang graduated from Chung Yuan Christian University with an undergraduate degree in mechanical engineering in 1982.

Mr. TSAI Yu Tsai (蔡有財), age 51, is the head of the production department of VMEP and general director of CQS. Mr. Tsai joined the Group in 1999. He has over 30 years of experience in the production of motorbikes. Mr. Tsai graduated from the Kai Nan High School of Commerce and Industry with a degree in mechanical engineering in 1973.

Mr. CHIANG Ping Hui (江炳輝), age 41, is the head of the marketing and sales department of VMEP. Mr. Chiang joined the Group in 1995. He has over 15 years of experience in the motorbike industry. Mr. Chiang graduated from the Tamshui Institute of Business Administration with an undergraduate degree in international trade in 1990.

Mr. LIN Chao Shun (林朝順), age 52, is the head of the research and development department of VMEP. Mr. Lin joined the Group in 2006. He has over 25 years of experience in the research and development of motorbikes. Mr. Lin graduated from National Taiwan University of Science and Technology with an undergraduate degree and a masters degree in mechanical engineering in 1980 and 1988, respectively.

Mr. CHANG Tu Hsuan (張督玄), age 52, is the head of the research and development department of VMEP. Mr. Chang joined the Group in 2006. He has over 25 years of experience in the research and development of new motorbike products. Mr. Chang graduated from the National Taiwan University of Science and Technology with an undergraduate degree in mechanical engineering in 1980.

Mr. LEE Tao Huang (李道煌), age 44, is the head of the overseas marketing department of VMEP and general director of Chin Zong. Mr. Lee joined the Group in 2007. Mr. Lee has over 20 years of experience in the marketing and sale of motorbikes. Mr. Lee graduated from Soochow University with a degree in mathematics in 1986.

Mr. CHEN Chien Hsiang (陳建祥), age 47, is the general director of VCFP. Mr. Chen joined the Group in 2007. Mr. Chen has over 20 years of experience in the production of motorbikes. Mr. Chen graduated from the National Taipei University of Technology with an undergraduate degree in mining and metallurgy in 1981.

Mr. WU Hsin Yu (巫信裕), age 47, is the general director of PT Sanyang. Mr. Wu joined PT Sanyang in 2003. Mr. Wu has over 20 years of experience in the production of motorbikes. Mr. Wu graduated from the National Taipei University of Technology with an undergraduate degree in mechanical engineering in 1984.

Mr. CHAN Chi Shing (陳志成), age 48, is the qualified accountant and company secretary of the Company. Mr. Chan has over 20 years of experience in the fields of audit and accounting. Mr. Chan obtained a Higher Certificate in Accountancy from the Hong Kong Polytechnic University in 1987 and is a member of the Hong Kong Institute of Certified Public Accountants.

Directors' Report

The directors ("Directors") of the Company present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 25 to 82 of this annual report. A final dividend of US$0.0026 per ordinary share was declared during the year and will be payable on 14 May 2009.

FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

BANK LOANS

Details of bank loans are set out in note 24 to the financial statements.

SHARE CAPITAL

Details of movements in the Group's share capital during the year are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company or the Companies Laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders ("Shareholders") of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and suppliers of the Group contributed to less than 30% of the total operating revenues and purchases, respectively, of the Group during the year. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest customers and five largest suppliers.

Directors' Report

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. Chang Kwang Hsiung
Mr. Chen Pang Hsiung
Mr. Lee Hsi Chun
Mr. Wang Ching Tung

Non-executive Directors:

Mr. Huang Kwang Wuu
Mr. Liu Wu Hsiung Harrison

Independent non-executive Directors:

Madam Lin Ching Ching
Mr. Hsu Nai Cheng Simon
Mr. Wei Sheng Huang

Having received written confirmations from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company considers each independent non-executive Director to be independent.

Pursuant to article 87 of the articles of association of the Company, one third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out under the section headed, "Directors and Senior Management Profile", of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors have entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the board (the "Board") of Directors with reference to the pay scale applicable to directors of listed companies. Details of the Directors' remuneration are set out in note 7 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies, was a party during the year.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders passed on 24 November 2007, the Board, at its discretion, may grant options to any Directors, executives, employees and any other persons who have contributed or will contribute to the Group.

Directors' Report

During the year ended 31 December 2008, share options were granted to eligible full-time employees and qualified participants pursuant to the terms of the share option scheme of the Company adopted on 24 November 2007.

Details of such grant of share options are as follows:

	Number of share options				
	Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2008
Directors:					
Mr. Chang Kwang Hsiung	–	498,000	–	–	498,000
Mr. Chen Pang Hsiung	–	498,000	–	–	498,000
Mr. Lee Hsi Chun	–	398,000	–	–	398,000
Mr. Wang Ching Tung	–	398,000	–	–	398,000
Mr. Huang Kwang Wuu	–	498,000	–	–	498,000
Mr. Liu Wu Hsiung Harrison	–	413,000	–	–	413,000
	–	2,703,000	–	–	2,703,000
Employees	–	9,280,000	–	(1,219,000)	8,061,000
Sub-total	–	11,983,000	–	(1,219,000)	10,764,000
Other qualified participants	–	8,017,000	–	(125,000)	7,892,000
Total	–	20,000,000	–	(1,344,000)	18,656,000

The share options to subscribe for 20,000,000 ordinary shares of the Company in aggregate were granted on 4 February 2008. The fair value of options granted is approximately at an average of HK$0.88 per share on the basis of the binominal model. The significant inputs into the model were the closing price of the shares of the Company at the date of grant of HK$2.9 per share, the annual risk-free interest rate of approximately 2.6%, an expected option life of approximately five years, expected volatility of 55% and an annual dividend yield of 7%. The amortised fair value of the share options for the year ended 31 December 2008 amounting to approximately US$1,274,141 (2007: US$nil) was charged to the income statement.

The options are exercisable from 4 August 2008 to 3 August 2013 (both days inclusive) up to 100% of the options at an exercise price of HK$2.9 per share. The closing price of the shares of the Company immediately before the date of grant was HK$2.9 per share.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

As at 31 December 2008, the interests or short positions of the Company's Directors, chief executives and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

Long position in ordinary shares and underlying shares of the Company

Name of Director	Capacity	Nature of interest	Number of ordinary shares of the Company held	Interests in underlying shares of the Company pursuant to share options	Approximate percentage of the Company's total issued share capital
Mr. Chang Kwang Hsiung	Beneficial owner	Personal	50,000	498,000	0.06%

Save as disclosed above, as at 31 December 2008, none of the Company's Directors, chief executive and their associates (including their spouse and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, granted to any Directors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies a party to any arrangement to enable the Directors to acquire such benefits through such means.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As far as the Directors are aware, as at 31 December 2008, the following persons (who are not Directors) had interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number and class of securities	Approximate percentage of interest in the Company's
SY International Ltd ("SYI") *(Note 1)*	Corporate interest	632,236,000 Shares	69.7%
Sanyang Industry Co., Ltd. ("Sanyang") *(Note 1)*	Interest in a controlled corporation	632,236,000 Shares	69.7%
Indopark Holdings Limited ("Indopark") *(Note 2)*	Corporate interest	51,240,000 Shares	5.7%
Merrill Lynch L.P. Holdings Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch Group, Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch & Co., Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%

Notes:

(1) SYI is a direct wholly-owned subsidiary of Sanyang and therefore, Sanyang is deemed or taken to be interested in the shares of the Company held by SYI for the purposes of the SFO.

(2) Indopark is a direct wholly-owned subsidiary of Merrill Lynch L.P. Holdings Inc., which is a direct wholly-owned subsidiary of Merrill Lynch Group, Inc., which is a direct wholly-owned subsidiary of Merrill Lynch & Co., Inc., and therefore, each of Merrill Lynch L.P. Holdings Inc., Merrill Lynch Group, Inc. and Merrill Lynch & Co., Inc. is deemed or taken to be interested in the Shares held by Indopark for the purposes of the SFO. The Company was notified by Indopark on 6 January 2009 that the percentage of Indopark's interests or short position in the shares of the Company had decreased to below 5%.

Save as disclosed above, as at 31 December 2008, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, none of the Directors were considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions:

1. Acquisition of CQS

On 28 May 2008, VMEP, a direct wholly-owned subsidiary of the Company (as purchaser), entered into a sale and purchase agreement (the "CQS Sale and Purchase Agreement") with C.Q.S. May's (as vendor) to acquire the entire 30% equity interest held by C.Q.S. May's in C.Q.S. Molds Inc. ("CQS") for a cash consideration of US$465,000.

Directors' Report

Before the completion of the abovementioned acquisition of CQS, C.Q.S. May's held a 30% equity interest in CQS and therefore, it was a substantial shareholder of a subsidiary of the Company and hence, a connected person of the Company pursuant to the Listing Rules. Accordingly, the transaction under the CQS Sale and Purchase Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Upon completion of the abovementioned acquisition of CQS, CQS became a wholly-owned subsidiary of VMEP.

2. Acquisition of PT Sanyang

On 7 August 2008, the Company, Chin Zong, Sanyang, Chinda Investment Company Limited ("Chinda") and PT Sanyang Industri Indonesia ("PT Sanyang") entered into a share purchase agreement (the "PT Sanyang Share Purchase Agreement"), pursuant to which the Company and Chin Zong acquired 99% and 1% of the total issued shares in the capital of PT Sanyang from Sanyang and Chinda, respectively, for a consideration of US$1,188,000 and US$12,000, respectively. Upon completion of the abovementioned acquisition of PT Sanyang, PT Sanyang became a subsidiary of the Company. Pursuant to the PT Sanyang Share Purchase Agreement, the Company also agreed to grant a shareholder's loan to PT Sanyang.

Sanyang is an indirect substantial shareholder of the Company and hence, is a connected person of the Company. Chinda is a subsidiary of Sanyang and hence, is an associate of Sanyang and also a connected person of the Company. Since Sanyang and Chinda are both connected persons of the Company within the meaning of the Listing Rules, the transaction under the PT Sanyang Share Purchase Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Prior to the completion of the abovementioned acquisition of PT Sanyang, PT Sanyang was a subsidiary of Sanyang and hence, was an associate of Sanyang and also a connected person of the Company. The abovementioned shareholder's loan granted by the Company to PT Sanyang, therefore, constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 30 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. During the year, the Group entered into the following continuing connected transactions with Sanyang (an indirect substantial shareholder of the Company), its subsidiaries or associates (as the case may be) (other than the Group), including Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM") and Sanyang Global Co., Ltd. ("Sanyang Global"):

1. Purchase of motorbike parts by the Group from Sanyang pursuant to a purchase agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such purchase agreement for the year ended 31 December 2008 was US$15,458,469 (2007: US$29,296,649).

2. Purchase of motorbike parts by the Group from VTBM pursuant to a purchase agreement dated 26 November 2007 and entered into between the Company and VTBM. The total consideration in relation to such purchase agreement for the year ended 31 December 2008 was US$3,908,724 (2007: US$4,370,093).

3. Sale of motorbike parts by the Group to Sanyang and its associates (excluding the Group) pursuant to a sales agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such sales agreement for the year ended 31 December 2008 was US$1,492,990 (2007: US$2,473,527).

4. Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP pursuant to a technology licence agreement dated 26 November 2007 and entered into between VMEP and Sanyang. The total consideration in relation to such technology licence agreement for the year ended 31 December 2008 was US$5,157,019 (2007: US$5,985,566).

5. Licensing of trade marks by Sanyang to the Company pursuant to a trade marks licence agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such trade marks licence agreement for the year ended 31 December 2008 was US$1 (2007: US$1).

6. Provision of research and development and technical support services by Sanyang and its associates (excluding the Group) to the Group pursuant to a research and development and technical support services agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such research and development and technical support services agreement for the year ended 31 December 2008 was US$450,000 (2007: US$339,407).

Directors' Report

7. The engagement of the Company as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates (excluding the Group) in the Exclusive Territory (excluding Vietnam, unless the motorbikes are resold in Vietnam for exhibition purposes) pursuant to a distributorship agreement (the "Distributorship Agreement") dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to the purchases of motorbikes and related parts by the Group from Sanyang and its associates (excluding the Group) pursuant to such distributorship agreement for the year ended 31 December 2008 was US$6,072,390 (2007: US$244,113).

8. Purchase of motorbike parts by the Group from Sanyang Global pursuant to a purchase agreement dated 24 April 2008 and entered into between the Company and Sanyang Global. The total consideration in relation to such purchase agreement for the year ended 31 December 2008 was US$2,057,130 (2007: US$nil).

9. Purchase of production machinery, moulds and equipment by the Group from Sanyang and its associates (excluding the Group) pursuant to a purchase agreement dated 24 April 2008 and entered into between the Company and Sanyang. The total consideration in relation to such purchase agreement for the year ended 31 December 2008 was US$2,614,375 (2007: US$nil).

For the financial year ended 31 December 2008, the total actual transaction amount for each of the abovementioned continuing connected transactions as compared with the relevant annual caps for the year ended 31 December 2008 is set out in the table below.

	For the financial year ended 31 December 2008	
Continuing connected transaction	**Actual transaction amount** *US$*	**Annual cap** *US$*
Purchase of motorbike parts by the Group from Sanyang	15,458,469	35,000,000
Purchase of motorbike parts by the Group from VTBM	3,908,724	6,200,000
Purchase of motorbike parts by the Group from Sanyang Global	2,057,130	7,800,000
Sale of motorbike parts by the Group to Sanyang and its associates (excluding the Group)	1,492,990	3,130,000
Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP	5,157,019	7,800,000
Licensing of trade marks by Sanyang to the Company	1	N/A
Provision of research and development and technical support services by Sanyang and its associates (excluding the Group) to the Group	450,000	450,000
Purchase of motorbikes and related parts by the Group from Sanyang and its associates (excluding the Group) pursuant to the Distributorship Agreement	6,072,390	7,700,000
Purchase of production machinery, moulds and equipment by the Group from Sanyang and its associates (excluding the Group)	2,614,375	2,900,000

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group to assist the Directors to evaluate whether:

- such transactions have received the approval from the Board;
- such transactions were in accordance with the pricing policies of the Group where such transactions involved the provision of goods and services by the Group;
- such transactions have been entered into in accordance with the relevant agreements governing such transactions; and
- the value of such transactions carried out pursuant to each of the agreements relating to the continuing connected transactions of the Group during the year have not exceeded the relevant annual cap for such transactions.

Directors' Report

The auditors of the Company have performed procedures in respect of the continuing connected transactions of the Group in accordance with the Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and guidances issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have reported their factual findings on the abovementioned procedures to the Board. The independent non-executive Directors have reviewed the continuing connected transactions of the Group and the findings of the auditors of the Company and confirmed that such transactions are:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms; and
- in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CORPORATE GOVERNANCE PRACTICES

The Company and its Directors confirm that, to the best of their knowledge, the Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the financial year ended 31 December 2008.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by Directors. Having made specific enquiry, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the financial year ended 31 December 2008.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Apart from the acquisition of CQS and PT Sanyang for a consideration of US$465,000 and US$1,200,000, respectively (as further described in the section headed, "Connected Transactions", above), the Group made no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2008.

DONATIONS

During the year, the Group made donations for charitable purposes which amounted to approximately US$103,000.

AUDITORS

A resolution to re-appoint Messrs. KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chang Kwang Hsiung
Chairman

Hong Kong, 30 March 2009

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
Vietnam Manufacturing and Export Processing (Holdings) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vietnam Manufacturing and Export Processing (Holdings) Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 25 to 82, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 30 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 US$	2007 US$
Revenue	5	216,814,157	259,737,332
Cost of sales		(168,735,370)	(192,558,987)
Gross profit		48,078,787	67,178,345
Other income		598,681	515,842
Distribution expenses		(20,276,910)	(19,066,894)
Technology transfer fees	30(a)	(5,157,019)	(5,985,566)
Administrative expenses		(15,606,591)	(10,637,626)
Other expenses		(19,460)	(1,405,080)
Losses arising from fire	6	(2,968,931)	–
Results from operating activities		4,648,557	30,599,021
Finance income		11,113,801	4,937,942
Finance expenses		(3,776,612)	(798,213)
Net finance income	7(c)	7,337,189	4,139,729
Share of profits of an equity accounted investee		80,568	169,553
Profit before income tax	7	12,066,314	34,908,303
Income tax expenses	8(a)	(4,069,483)	(3,864,834)
Profit for the year		7,996,831	31,043,469
Attributable to:			
Equity holders of the Company		7,960,774	30,999,244
Minority interests		36,057	44,225
Profit for the year		7,996,831	31,043,469
Dividends payable to equity holders of the Company			
Interim dividend declared during the year	10	–	39,000,000
Final dividend proposed after the balance sheet date	10	2,399,050	19,782,769
		2,399,050	58,782,769
Earnings per share			
– basic	11	0.009	0.042
– diluted	11	0.009	N/A

The notes on pages 31 to 82 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 US$	2007 US$
Assets			
Property, plant and equipment	12	41,327,729	39,470,807
Intangible assets	13	185,779	413,889
Lease prepayments	14	3,135,565	3,536,911
Goodwill	31	8,751	–
Investment in an equity accounted investee	15(a)	773,767	793,939
Other non-current assets		–	62,510
Deferred tax assets	25(b)	1,129,035	303,582
Total non-current assets		46,560,626	44,581,638
Inventories	17	33,654,233	40,838,363
Trade receivables, other receivables and prepayments	18	19,046,202	18,566,475
Income tax recoverable	25(a)	866,615	3,573
Available-for-sale financial assets	19	75,558,351	–
Pledged bank deposits	20	7,916,395	9,822,323
Time deposits maturing after three months	21	4,902,562	13,243,810
Cash and cash equivalents	22	47,439,732	125,696,749
Total current assets		189,384,090	208,171,293
Total assets		235,944,716	252,752,931
Liabilities			
Trade and other payables	23	22,281,596	45,919,905
Interest-bearing borrowings	24	39,794,029	13,425,523
Income tax payables	25(a)	33,409	1,355,736
Provisions	26	1,786,124	1,946,683
Total current liabilities		63,895,158	62,647,847
Net current assets		125,488,932	145,523,446
Total assets less current liabilities		172,049,558	190,105,084
Interest-bearing borrowings	24(b)	44,703	70,226
Total non-current liabilities		44,703	70,226
Total liabilities		63,939,861	62,718,073
Net assets		172,004,855	190,034,858

Consolidated Balance Sheet (Continued)

At 31 December 2008

	Note	2008 US$	2007 US$
Equity			
Paid-in capital	27(a)	1,162,872	1,162,872
Reserves	27(b)	170,841,983	188,405,996
Total equity attributable to equity holders of the Company		172,004,855	189,568,868
Minority interests		–	465,990
Total equity		172,004,855	190,034,858
Total liabilities and equity		235,944,716	252,752,931

Approved and authorised for issue by the Board of Directors on 30 March 2009.

CHEN PANG HSIUNG
Director

LEE HSI CHUN
Director

The notes on pages 31 to 82 form part of these financial statements.

Balance Sheet of the Company

At 31 December 2008

	Note	2008 US$	2007 US$
Assets			
Investment in subsidiaries	16	65,599,988	63,088,712
Total non-current assets		65,599,988	63,088,712
Trade receivables, other receivables and prepayments	18	32,162,159	3,529,648
Available-for-sale financial assets	19	75,558,351	–
Cash and cash equivalents	22	5,401,283	76,141,492
Total current assets		113,121,793	79,671,140
Total assets		178,721,781	142,759,852
Liabilities			
Other payables	23	535,818	363,457
Interest-bearing borrowings	24	24,735,827	–
Total current liabilities/Total liabilities		25,271,645	363,457
Net current assets		87,850,148	79,307,683
Net assets		153,450,136	142,396,395
Equity			
Paid-in capital	27(a)	1,162,872	1,162,872
Reserves	27(b)	152,287,264	141,233,523
Total equity		153,450,136	142,396,395
Total liabilities and equity		178,721,781	142,759,852

Approved and authorised for issue by the Board of Directors on 30 March 2009.

CHEN PANG HSIUNG
Director

LEE HSI CHUN
Director

The notes on pages 31 to 82 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Paid-in capital US$	Share premium US$	Capital reserve US$	Exchange reserve US$	Statutory reserves US$	Retained profits US$	Total US$	Minority interests US$	Total equity US$
At 31 December 2006	58,560,000	–	–	(880,913)	–	65,120,184	122,799,271	421,765	123,221,036
Change of par value	(58,484,976)	58,484,976	–	–	–	–	–	–	–
Issue of shares through Initial Public Offering	225,072	84,176,952	–	–	–	–	84,402,024	–	84,402,024
Issue of shares on capitalisation of share premium account	862,776	(862,776)	–	–	–	–	–	–	–
Share issue expenses	–	(9,817,674)	–	–	–	–	(9,817,674)	–	(9,817,674)
Profit for the year	–	–	–	–	–	30,999,244	30,999,244	44,225	31,043,469
Dividends *(Note 10)*	–	–	–	–	–	(39,000,000)	(39,000,000)	–	(39,000,000)
Exchange difference	–	–	–	186,003	–	–	186,003	–	186,003
At 31 December 2007	1,162,872	131,981,478	–	(694,910)	–	57,119,428	189,568,868	465,990	190,034,858
Profit for the year	–	–	–	–	–	7,960,774	7,960,774	36,057	7,996,831
Dividends *(Note 10(a))*	–	(19,782,769)	–	–	–	–	(19,782,769)	–	(19,782,769)
Equity-settled share-based payment *(Note 28)*	–	–	1,274,141	–	–	–	1,274,141	–	1,274,141
Appropriation of statutory reserves *(Note 27(b)(iv))*	–	–	–	–	505	(505)	–	–	–
Acquisition of minority interests *(Note 27(b)(v))*	–	–	–	–	–	37,047	37,047	(502,047)	(465,000)
Exchange difference	–	–	–	(7,053,206)	–	–	(7,053,206)	–	(7,053,206)
At 31 December 2008	1,162,872	112,198,709	1,274,141	(7,748,116)	505	65,116,744	172,004,855	–	172,004,855

The notes on pages 31 to 82 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 US$	2007 US$
Cash flows from operating activities		
Profit for the year	7,996,831	31,043,469
Adjustments for:		
Share of profits of an equity accounted investee	(80,568)	(169,553)
Depreciation	7,432,338	8,119,619
Net interest and dividend income	(9,930,071)	(4,133,871)
Amortisation	459,122	538,950
Allowance for inventory impairment	413,713	1,865,167
Equity-settled share-based payment expenses	1,274,141	–
(Gain)/loss on disposal/write off of property, plant and equipment (net)	(25,796)	3,683
Inventories and property, plant and equipment written off as a result of fire *(Note 6)*	2,968,931	–
Income tax expense	4,069,483	3,864,834
Other expenses-listing expenses	–	1,363,810
Operating profit before changes in working capital	14,578,124	42,496,108
Changes in working capital		
Decrease/(increase) in inventories	4,327,699	(7,864,099)
Increase in gross trade receivables, other receivables and prepayments	(3,953)	(1,668,627)
(Decrease)/increase in trade and other payables	(24,399,479)	16,590,645
(Decrease)/increase in provisions	(160,559)	463,316
	(5,658,168)	50,017,343
Corporate income tax paid	(6,864,777)	(2,319,101)
Net cash (used in)/from operating activities	(12,522,945)	47,698,242
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and lease prepayments	(12,612,884)	(10,843,955)
Acquisition of a subsidiary, net of cash paid *(Note 31)*	(922,432)	–
Acquisition of minority interests	(465,000)	–
Acquisition of available-for-sale financial assets	(113,150,119)	–
Proceeds from disposals of property, plant and equipment	79,401	3,942,345
Interest and dividend received	11,113,801	5,202,169
Decrease/(increase) in time deposits maturing after three months	8,341,248	(3,873,865)
Disposal of available-for-sale financial assets	37,591,768	–
Dividend received from an equity accounted investee	100,740	–
Net cash used in investing activities	(69,923,477)	(5,573,306)
Cash flows from financing activities		
Proceeds from issue of shares through Initial Public Offering	–	84,402,024
Payment for share issue transaction costs	–	(11,181,484)
Decrease in pledged bank deposits	1,905,928	6,524,783
Proceeds from borrowings	88,623,409	60,998
Repayment of borrowings	(62,280,426)	(3,855,914)
Interest paid	(1,183,730)	(813,518)
Dividends paid	(19,782,769)	(39,000,000)
Net cash from financing activities	7,282,412	36,136,889
Net (decrease)/increase in cash and cash equivalents	(75,164,010)	78,261,825
Cash and cash equivalents at the beginning of the year	125,696,749	47,434,924
Effect of foreign exchange rate changes	(3,093,007)	–
Cash and cash equivalents at the end of the year	47,439,732	125,696,749

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY AND CORPORATE INFORMATION

Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 20 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services.

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2007.

2. BASIS OF PREPARATION

The following significant accounting policies have been adopted by the Group in the preparation of these financial statements.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), which include the International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange.

At the date of this report, the IASB has issued the following IFRSs and interpretations which are not yet effective in respect of the year ended 31 December 2008. The Group has not early adopted these IFRSs and interpretations in the preparation of the financial statements.

	Effective for accounting periods beginning on or after
IFRIC 13, *Customer loyalty programmes*	1 July 2008
IFRIC 16, *Hedges of a net investment in a foreign operation*	1 October 2008
IFRIC 15, *Agreements for the construction of real estate*	1 January 2009
IFRIC 17, *Distributions on non-cash assets to owners*	1 July 2009
IFRIC 18, *Transfers of assets from customers*	Applies to transfers of assets from customers received on or after 1 July 2009
IFRS 8, *Operating segments*	1 January 2009
Revised IAS 1, *Presentation of financial statements*	1 January 2009
Revised IAS 23, *Borrowing costs*	1 January 2009
Amendments to IFRS 1, *First-time adoption of International Financial Standards, and IAS 27, Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly-controlled entity or associate*	1 January 2009
Amendment to IFRS 2, *Share-based payment – Vesting conditions and cancellations*	1 January 2009

Notes to the Consolidated Financial Statements

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (Continued)

	Effective for accounting periods beginning on or after
Amendments to IAS 32, *Financial instruments: Presentation of financial statements-Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Amendments to IFRIC 9, *Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement – Embedded derivatives*	The amendments are effective for annual periods ending or after 30 June 2009
Amendments to IFRS 7, *Financial instruments: Disclosures – Improving disclosures about financial instruments*	1 January 2009
Improvements to IFRSs	1 January 2009 or 1 July 2009
Revised IFRS 1, *First-time adoption of International Financial Reporting Standards*	1 July 2009
Revised IFRS 3, *Business combinations*	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 July 2009
Amended IAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendment to IAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009

The directors have confirmed that the above IFRSs and interpretations, except for Revised IAS 1, *Presentation of financial statements* which is effective for accounting periods beginning on or after 1 January 2009, do not have a significant impact on how the results of operations and financial position of the Group for the year ended 31 December 2008 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results of operations and financial position of the Group are prepared and presented.

Revised IAS 1, Presentation of financial statements, introduces the term, total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income.

Notes to the Consolidated Financial Statements

2. BASIS OF PREPARATION (Continued)

(b) Basis of preparation of the consolidated financial statements

These financial statements are prepared on the historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 34.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(i)), unless the investment is classified as held for sale.

(ii) Minority interests

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statements as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iii) Associates (equity accounted investees)

Associates are those enterprises in which the Group has significant influence but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Functional currency

Most of the companies comprising the Group are operating in a Vietnam Dong ("VND") environment. The functional currency of most of the companies comprising the Group is VND.

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in consolidated income statement.

(ii) Presentation currency

The Group has adopted US Dollar ("US$") as its presentation currency as the directors of the Company consider that presentation of the consolidated financial statements in US$ will facilitate analysis of financial information.

For the purpose of presenting the consolidated financial statements, assets and liabilities are translated into US$ at the rates of exchange ruling at the balance sheet date. Revenues, expenses and capital transactions are translated to US$ at rates approximating the rates of exchange ruling at the dates of the transactions. Foreign exchange differences arising on translation, if any, are recognised directly as a separate component of equity.

(c) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade receivables, other receivables and prepayments, cash and cash equivalents, restricted cash, time deposits, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(ii) Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates.

- *Initial recognition*

  Purchases and sales of available-for-sale financial assets are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Available-for-sale financial assets are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, directly attributable transaction costs.

- *Subsequent measurement*

  Available-for-sale financial assets are subsequently carried at fair value. The Group establishes fair value by using valuation techniques that provide reliable estimates of prices which could be obtained in actual market transactions. These include reference to recent arm's length transactions and the market condition.

  The fair values of quoted financial assets or financial liabilities in active markets are based on current prices.

- *Income recognition*

  The interest income arising from available-for-sale financial assets is recognised in the consolidated income statement using the effective interest method.

  The dividend income from available-for-sale financial assets is recognised in the consolidated income statement when the Group's right to receive payment is established.

  Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in consolidated income statement.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(iii) Available-for-sale financial assets (Continued)

- *Impairment*

  A significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost is considered, amongst other indicators of impairment, in determining whether an asset is impaired. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement) is removed from equity and recognised in the consolidated income statement. If, in a subsequent period, the fair value of an available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 3(i)). The initial cost of a tangible fixed asset comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal.

(ii) Subsequent costs

Expenditures incurred after property, plant and equipment have been put into intended use, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment beyond their originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

(iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

• buildings	8–30 years
• machinery, moulds and equipment	2–16 years
• office equipment, furniture and fittings	4–10 years
• electrical, water and utility systems	5–10 years
• motor vehicles	5–7 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Construction work in progress

Construction work in progress is stated at cost less impairment losses (see Note 3(i)). Cost comprises direct costs of construction during the period of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's policy.

(f) Intangible assets

The cost of acquisition of software, which is not an integral part of related hardware, is capitalised and accounted for as an intangible asset. Software is amortised on a straight-line basis over 3 years from the date when it is ready for use.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Lease prepayments

Lease prepayments represent prepaid land lease rentals and related costs. Lease prepayments are carried at cost less amortisation and impairment losses (see Note 3(i)). Amortisation is charged to the consolidated income statement on a straight-line basis over the lease periods of 10-50 years.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Impairment

(i) Financial assets

A financial asset other than the available-for-sale financial assets (Note 3(d)(iii)) is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (see Note 3(h)) and deferred tax assets (see Note 3(j)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment (Continued)

(ii) Non-financial assets (Continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Corporate income tax

Corporate income tax (the "CIT") on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(l) Share-based payment transactions

The fair value of share options granted to qualified participants is recognised as an administrative expense with a corresponding increase in the capital reserve within equity. The fair value is measured at grant date using the binomial option pricing models, taking into account the terms and conditions upon which the options were granted. Where the qualified participants have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Share-based payment transactions (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to consolidated income statement for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue

(i) Goods sold

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing management involvement with the goods.

(ii) Services rendered

Revenue from mould and repair services is recognised in the consolidated income statement when services are rendered.

(iii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(o) Lease payments

Payments made under operating leases are recognised in consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

(p) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in consolidated income statement using the effective interest method.

(q) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(iii) Severance pay allowance

Obligations in respect of severance pay allowance are calculated by estimating the amount of benefits that employees have earned in return for their services in the current and prior periods. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date. The impact of discounting is immaterial.

(r) Government grants

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

(s) Research and development expenses

Expenditure on research activities is recognised in consolidated income statement when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognised in consolidated income statement when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses (see Note 3(i)).

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group determined that business segments and geographical segments be presented as the primary and secondary reporting format for the purpose of these financial statements. Unallocated expenses represent corporate expenses.

4. CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company:

- IFRIC 11, IFRS 2 – *Group and treasury share transactions*
- IFRIC 12, *Service concession arrangements*
- IFRIC 14, IAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement, and IFRS 7, Financial instruments: Disclosures – Reclassification of financial assets*

These IFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 2(a)).

Notes to the Consolidated Financial Statements

5. SEGMENT REPORTING

Primary segment – business segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The principal activities of the Group are those relating to manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services. Revenue excludes value added taxes, and is net of any sales discounts and rebates.

	Manufacture and sales of motorbikes US$	Manufacture and sales of spare parts and engines US$	Moulds and repair services US$	Inter-segment elimination US$	Group US$
For the year ended 31 December 2008					
Revenue from external customers	176,182,248	40,301,502	330,407	–	216,814,157
Inter-segment revenue	–	65,122,735	1,674,590	(66,797,325)	–
Total revenue	176,182,248	105,424,237	2,004,997	(66,797,325)	216,814,157
Segment result	17,500,677	1,334,138	336,288	(7,133,702)	12,037,401
Unallocated expenses					(7,388,844)
Net finance income					7,337,189
Share of profits of an equity accounted investee					80,568
Profit before income tax					12,066,314
Income tax expenses					(4,069,483)
Profit for the year					7,996,831
Segment assets	74,681,905	18,480,287	1,856,761	–	95,018,953
Investment in an equity accounted investee					773,767
Unallocated assets#					140,151,996
Total assets					235,944,716
Segment liabilities	18,003,589	4,245,061	60,283	–	22,308,933
Unallocated liabilities					41,630,928
Total liabilities					63,939,861
Depreciation and amortisation	4,660,814	3,169,666	60,980	–	7,891,460
Non-cash expenses other than depreciation	1,362,875	797,307	15,346	–	2,175,528

Included in unallocated assets are available-for-sale financial assets, pledged bank deposits, time deposits maturing after three months and, cash and cash equivalents, of US$75,558,351, US$7,916,395, US$4,902,562, and US$47,439,732, respectively.

Notes to the Consolidated Financial Statements

5. SEGMENT REPORTING (Continued)

Primary segment – business segments (Continued)

	Manufacture and sales of motorbikes US$	Manufacture and sales of spare parts and engines US$	Moulds and repair services US$	Inter-segment elimination US$	Group US$
For the year ended 31 December 2007					
Revenue from external customers	234,123,202	25,005,797	608,333	–	259,737,332
Inter-segment revenue	–	95,552,679	887,714	(96,440,393)	–
Total revenue	234,123,202	120,558,476	1,496,047	(96,440,393)	259,737,332
Segment result	30,331,420	14,537,575	146,982	(12,445,054)	32,570,923
Unallocated expenses					(1,971,902)
Net finance income					4,139,729
Share of profits of an equity accounted investee					169,553
Profit before income tax					34,908,303
Income tax expenses					(3,864,834)
Profit for the year					31,043,469
Segment assets	59,238,873	36,886,354	1,849,175	–	97,974,402
Investment in an equity accounted investee					793,939
Unallocated assets#					153,984,590
Total assets					252,752,931
Segment liabilities	28,849,936	14,748,116	529,105	–	44,127,157
Unallocated liabilities					18,590,916
Total liabilities					62,718,073
Depreciation and amortisation	5,440,162	3,082,921	135,486	–	8,658,569
Non-cash expenses other than depreciation	1,702,928	965,997	3,203	–	2,672,128

Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and, cash and cash equivalents, of US$9,822,323, US$13,243,810 and US$125,696,749, respectively.

Notes to the Consolidated Financial Statements

5. SEGMENT REPORTING (Continued)

Secondary segment – geographical segments

The Group's business operates in Vietnam and other countries. Vietnam is the major market for most of the Group's businesses. Other countries mainly consist of Malaysia, Philippines, Brunei and Singapore.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

For the year ended 31 December 2008	Vietnam US$	Other countries US$	Group US$
Revenue from external customers	193,994,229	22,819,928	216,814,157
Segment assets	94,146,335	872,618	95,018,953
Capital expenditure during the year	12,610,071	761,413	13,371,484

For the year ended 31 December 2007	Vietnam US$	Other countries US$	Group US$
Revenue from external customers	239,557,332	20,180,000	259,737,332
Segment assets	97,556,658	417,744	97,974,402
Capital expenditure during the year	10,843,955	–	10,843,955

6. LOSSES ARISING FROM FIRE

During the year, a fire broke out in a factory owned by Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), a wholly-owned subsidiary of the Company. The fire has resulted in losses to the Group's inventories of US$2,730,177 (Note 17) (2007: US$nil) and losses to the Group's property, plant and equipment of US$238,754 (Note 12) (2007: US$nil). The Group submitted an insurance claim of approximately US$3 million in September 2008 for the losses (Note 29).

7. PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

(a) Staff costs (including management's emoluments)

	2008 US$	2007 US$
Salaries, wages and other benefits	**10,152,959**	8,983,417
Equity-settled share-based payment expenses	**745,435**	–
Contributions to defined contribution plans	**524,179**	364,832
Severance pay allowance *(Note 26)*	**715,568**	289,628
	12,138,141	9,637,877

Description of the defined contribution plan

The Group participates in a defined contribution plan managed by the Vietnam government whereby the Group is required to make contributions to the plan, representing the employer's portion of social and health insurance contributions. The applicable rates of contribution are 15% and 2% of total contractual salaries, respectively. The Group has no obligation for the payment of retirement benefits other than the contributions described above. The Group's contributions vest fully with the employees when contributed into the plan.

Notes to the Consolidated Financial Statements

7. PROFIT BEFORE INCOME TAX (Continued)

(a) Staff costs (including management's emoluments) (Continued)

Directors' emoluments

Details of the directors' emoluments are as follows:

	Salaries, allowances and benefits in kind US$	Discretionary bonuses US$	Directors' fee US$	Share-based payments (Note) US$	Total US$
For the year ended 31 December 2008					
Chairman:					
Chang, Kwang-Hsiung	77,400	–	–	34,835	112,235
Executive directors:					
Chen, Pang-Hsiung	130,024	19,448	–	34,835	184,307
Lee, Hsi-Chun	111,434	9,018	–	27,840	148,292
Wang, Ching-Tung	112,936	10,016	–	27,840	150,792
Non-executive directors:					
Huang, Kwang-Wuu	–	–	25,000	34,835	59,835
Liu, Wu-Hsiung Harrison	–	–	25,000	28,890	53,890
Independent non-executive directors:					
Hsu, Nai-Cheng Simon	–	–	25,000	–	25,000
Wei, Sheng-Huang	–	–	25,000	–	25,000
Lin, Ching-Ching	–	–	25,000	–	25,000
	431,794	38,482	125,000	189,075	784,351

	Salaries, allowances and benefits in kind US$	Discretionary bonuses US$	Total US$
For the year ended 31 December 2007			
Chairman:			
Chang, Kwang-Hsiung	12,900	–	12,900
Executive directors:			
Chen, Pang-Hsiung	43,975	48,156	92,131
Lee, Hsi-Chun	38,824	22,950	61,774
Wang, Ching-Tung	43,390	25,851	69,241
Non-executive directors:			
Huang, Kwang-Wuu	–	–	–
Liu, Wu-Hsiung Harrison	–	–	–
Independent non-executive directors:			
Hsu, Nai-Cheng Simon	–	–	–
Wei, Sheng-Huang	–	–	–
Lin, Ching-Ching	–	–	–
	139,089	96,957	236,046

Notes to the Consolidated Financial Statements

7. PROFIT BEFORE INCOME TAX (Continued)

(a) Staff costs (including management's emoluments) (Continued)

Directors' emoluments (Continued)

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(l). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share-based payments" in the directors' report and Note 28.

The Group did not pay any emoluments to directors of the Company for the year ended 31 December 2008 as an inducement fee to join or as compensation for loss of office. None of the persons who are board directors of the Company waived or agreed to waive any emoluments or remuneration during the year ended 31 December 2008.

Five highest paid employees

Of the five individuals with the highest emoluments, four (2007: two) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other one (2007: three) individual(s) are as follows:

	2008 **US$**	2007 US$
Salaries, wages and other benefits	**113,786**	117,539
Equity-settled share-based payment expenses	**27,840**	–
Discretionary bonuses	**12,897**	77,467
Total	**154,523**	195,006

During the year ended 31 December 2008, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the one (2007: three) individual(s) with the highest emoluments are within the following bands:

	2008 **Number of individuals**	2007 Number of individuals
Hong Kong Dollar ("HK$")		
Nil to 1,000,000	**–**	3
1,000,000 to 1,500,000	**1**	–

Notes to the Consolidated Financial Statements

7. PROFIT BEFORE INCOME TAX (Continued)

(b) Other items

	2008 US$	2007 US$
Amortisation of lease prepayments/intangible assets	459,122	538,950
Auditors' remuneration		
– audit services	321,761	95,000
Cost of inventories recognised as expenses *(i) (Note 17)*	166,328,731	191,780,254
Depreciation of property, plant and equipment	7,432,338	8,119,619
Equity-settled share-based payment expenses		
– employees of the Group *(Note 7(a))*	745,435	–
– employees of the ultimate holding company	528,706	–
Government grants	(1,327,194)	(1,803,269)
(Gain)/loss on disposal/write off of property, plant and equipment (net)	(25,796)	3,683
Loss of property, plant and equipment as a result of fire *(Note 12)*	238,754	–
Loss of inventories as a result of fire *(Note 17)*	2,730,177	–
Operating lease of properties	343,832	582,475
Research and development expenses *(ii)*	7,284,714	10,502,411
Technical consultancy fee *(Note 30(a))*	450,000	339,407
Warranty expenses *(Note 26)*	3,389,433	4,541,526

(i) *Cost of inventories recognised as expenses includes amounts relating to staff costs, depreciation and amortisation expenses and rental expense of properties, which are also included in the respective total amounts disclosed separately above or in Note 7(a) for each of these types of expenses.*

(ii) *Research and development expenses include amounts relating to staff costs, depreciation and amortisation expenses, rental expense of properties and other miscellaneous expenses, which are also included in the respective total amounts disclosed separately above or in Note 7(a) for each of these types of expenses. No development expenditure was capitalised for the year ended 31 December 2008 (2007: US$Nil).*

(c) Finance income and expenses

	2008 US$	2007 US$
Interest income from banks	8,061,654	4,932,084
Interest income from assets-backed securities	2,946,057	–
Dividend income from mutual funds	106,090	–
Net foreign exchange gains	–	5,858
Finance income	11,113,801	4,937,942
Interest paid and payable to banks	(1,183,730)	(798,213)
Net foreign exchange losses	(2,592,882)	–
Finance expenses	(3,776,612)	(798,213)
Net finance income	7,337,189	4,139,729

Notes to the Consolidated Financial Statements

8. INCOME TAX EXPENSES

(a) Recognised in the consolidated income statement

	2008 US$	2007 US$
Current tax expenses		
– current tax#	1,796,462	4,001,090
– under-provision in prior years*	2,882,946	33,380
Deferred tax expense		
– origination and reversal of temporary differences	(609,925)	(169,636)
	4,069,483	3,864,834

* *The under-provision of income tax expense in 2008 mainly resulted from the difference in the methodology used by VMEP and the Vietnam tax authorities in determining the taxable profit of VMEP's engine assembling and manufacturing activities. This issue arose during 2008 when the tax authorities carried out their tax assessments for the fiscal years 2003 to 2006. The difference in methodology arose due to unclear guidance under the current tax regulations in the allocation of revenue and expenses relating to the engine manufacturing activities and other activities, which attract different tax rates. The taxable profit for 2007 was recomputed based on the methodology used by the Vietnam tax authorities and the income tax expense for 2007 was adjusted accordingly.*

\# *VMEP computed its taxable profits for 2008 based on the methodology used by the Vietnam tax authorities.*

No provision for Hong Kong profits tax has been made, as the Group did not earn any income subject to Hong Kong profits tax for the years ended 31 December 2008 and 2007.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for VMEP is calculated at 18% of the profits from manufacturing and sales of motorbikes, spare parts and services rendered. Although the applicable tax rate for profits from assembling and sales of engines is 10%, pursuant to the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, such business is entitled to a tax holiday of a tax free period for 8 years from 2001 to 2008.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, the applicable CIT rate for Vietnam Casting Forge Precision Limited ("VCFP") is 15%. VCFP is entitled to a tax holiday of a tax-free period for 3 years from 2003 to 2005. Thereafter, it is subject to CIT at 50% of the applicable income tax rate for the following 7 years.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000, the Investment Law of 2006, and the Law on Corporate Income Tax of 2003 in Vietnam, the applicable tax rate for C.Q.S Molds Inc. ("C.Q.S.") is 15% for the first 5 years starting from the first year of operation, 20% for the next 6 years (2007 to 2012) and 28% for subsequent years. C.Q.S. is entitled to a tax holiday of a tax-free period for 2 years from 2004 to 2005 and is subject to corporate income tax at 50% of the applicable income tax rate for 2006.

In accordance with the Corporate Income Tax Law of Taiwan, the applicable tax rate for Chin Zong is 15% for the amount of net profit below New Taiwan Dollar ("NTD") 100,000, and 25% for the amount of net profit at or above NTD100,000.

In accordance with the Income Tax Law of Indonesia, the applicable tax rate for PT Sanyang Industri Indonesia is 10% for the amount of net profit below Indonesia Rupiah ("IDR") 50 million, and 15% and 30% for the amount of net profit at or above IDR50 million and IDR100 million, respectively.

Notes to the Consolidated Financial Statements

8. INCOME TAX EXPENSES (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2008 US$	2007 US$
Profit before income tax	**12,066,314**	34,908,303
Notional income tax using the CIT rate of 18%	**2,171,937**	6,283,495
Effects of non-deductible expenses	**1,054,648**	311,845
Effects of non-taxable income	**(6,375,875)**	–
Effects of differences in tax rates and tax holidays of subsidiaries	**4,335,827**	(2,763,886)
Under provision for CIT in respect of prior years	**2,882,946**	33,380
Actual tax expenses	**4,069,483**	3,864,834
The Group's effective income tax rate	**33.73%**	11.07%

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the company includes a loss of US$2,437,631 (2007: US$1,732,483) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2008 US$	2007 US$
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	**(2,437,631)**	(1,732,483)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved during the year	**32,000,000**	50,000,000
Company's profit for the year *(Note 27(c))*	**29,562,369**	48,267,517

10. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year

	2008 US$	2007 US$
Interim dividend declared and paid of US$nil per ordinary share (2007: US$0.5635)	**–**	33,000,000#
Final dividend proposed after the balance sheet date of US$0.0026 (2007: US$0.0218) per ordinary share*	**2,399,050**	19,782,769
	2,399,050	52,782,769

The interim dividend was declared and paid before the capitalisation of share premium account and initial public offering.

* *The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.*

Notes to the Consolidated Financial Statements

10. DIVIDENDS (Continued)

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, declared and paid during the year

	2008 US$	2007 US$
Interim dividend in respect of the previous year, declared and paid during the year of US$nil per ordinary share (2007: N/A#)	–	6,000,000

The dividend rate is not presented as such information is not meaningful for the purpose of the financial statements.

11. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of US$7,960,774 (2007: US$30,999,244) and the weighted average of 907,680,000 ordinary shares (2007: 737,294,466 shares after adjusting for the capitalisation issue in 2007) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2008	2007
Issued ordinary shares at 1 January	907,680,000	58,560,000
Effect of capitalisation issue	–	673,440,000
Effect of the Initial Public Offering	–	5,294,466
Weighted average number of ordinary shares at 31 December	907,680,000	737,294,466

Diluted earnings per share

The amount of diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2008 as there was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

There were no dilutive potential shares in existence during the year ended 31 December 2007 and therefore diluted earnings per share are not presented.

Notes to the Consolidated Financial Statements

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings US$	Machinery, moulds and equipment US$	Office equipment, furniture and fittings US$	Electrical, water and utility systems US$	Motor vehicles US$	Assets under construction US$	Total US$
Cost							
At 1 January 2007	11,824,454	65,597,939	1,533,318	5,895,654	1,301,597	1,867,209	88,020,171
Additions	114,244	3,813,694	273,780	5,789	77,786	6,272,362	10,557,655
Transfer from assets under construction	914,901	–	–	–	–	(914,901)	–
Disposals	–	(2,959,145)	(96,998)	(104,681)	(83,036)	(3,883,988)	(7,127,848)
Effect of movements in exchange rate	27,736	148,417	3,646	13,142	2,920	5,853	201,714
At 31 December 2007	12,881,335	66,600,905	1,713,746	5,809,904	1,299,267	3,346,535	91,651,692
Additions	204,417	7,408,296	174,737	212,228	182,754	4,281,463	12,463,895
Through acquisition of a subsidiary	10,271	688,488	13,710	–	46,131	–	758,600
Transfer from assets under construction	1,789,390	1,195,153	–	–	–	(2,984,543)	–
Disposals#	(233,791)	(603,304)	(57,198)	(9,803)	(179,357)	–	(1,083,453)
Effect of movements in exchange rate	(1,159,288)	(6,051,218)	(151,224)	(497,264)	(116,959)	(336,040)	(8,311,993)
At 31 December 2008	**13,492,334**	**69,238,320**	**1,693,771**	**5,515,065**	**1,231,836**	**4,307,415**	**95,478,741**
Accumulated depreciation							
At 1 January 2007	3,090,054	38,006,300	819,225	4,449,070	766,941	–	47,131,590
Depreciation charge for the year	444,930	7,098,648	246,621	189,210	140,210	–	8,119,619
Disposals	–	(2,942,508)	(93,527)	(104,681)	(41,104)	–	(3,181,820)
Effect of movements in exchange rate	7,447	90,106	2,014	10,096	1,833	–	111,496
At 31 December 2007	3,542,431	42,252,546	974,333	4,543,695	867,880	–	52,180,885
Depreciation charge for the year	522,911	6,305,019	257,022	198,930	148,456	–	7,432,338
Disposals#	(32,844)	(597,170)	(49,322)	(5,801)	(105,957)	–	(791,094)
Effect of movements in exchange rate	(318,644)	(3,796,387)	(90,811)	(390,354)	(74,921)	–	(4,671,117)
At 31 December 2008	**3,713,854**	**44,164,008**	**1,091,222**	**4,346,470**	**835,458**	**–**	**54,151,012**
Carrying amount							
At 31 December 2008	**9,778,480**	**25,074,312**	**602,549**	**1,168,595**	**396,378**	**4,307,415**	**41,327,729**
At 31 December 2007	9,338,904	24,348,359	739,413	1,266,209	431,387	3,346,535	39,470,807

Included in property, plant and equipment disposals were property, plant and equipment with carrying amount of US$238,754 that were written off as a result of the fire that occurred during the year, as set out in Note 6.

Notes to the Consolidated Financial Statements

13. INTANGIBLE ASSETS

Intangible assets represent computer software.

	The Group 2008 US$	2007 US$
Cost		
At 1 January	**1,003,996**	738,285
Additions	**128,467**	263,755
Effect of movements in exchange rate	**(89,861)**	1,956
At 31 December	**1,042,602**	1,003,996
Accumulated amortisation		
At 1 January	**590,107**	269,637
Charge for the year	**330,241**	319,504
Effect of movements in exchange rate	**(63,525)**	966
At 31 December	**856,823**	590,107
Carrying amount		
At 31 December	**185,779**	413,889

14. LEASE PREPAYMENTS

Lease prepayments represent prepaid land lease rental and related costs.

	The Group 2008 US$	2007 US$
At 1 January	**3,536,911**	3,725,658
Additions	**20,522**	22,545
Less: amortisation	**(128,881)**	(219,446)
Effect of movements in exchange rate	**(292,987)**	8,154
At 31 December	**3,135,565**	3,536,911

15. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

The Group's investment in an equity accounted investee represents its share of the net assets of the associate.

Description of investment in an equity accounted investee

Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM") was originally a wholly foreign-owned enterprise established on 5 September 2002 with a registered capital of US$1,000,000 by Three Brothers Machinery Industry Co., Ltd. (registered in Taiwan), a subsidiary of Sanyang Industry Co., Ltd., the Company's ultimate holding company. On 7 April 2003 the Group acquired 31% of the contributed capital of Vietnam Three Brothers Machinery Industry Co., Limited, which was satisfied in cash.

VTBM's period of operation is 50 years and its principal activities are manufacture and sale of motorbike-related spare parts.

Notes to the Consolidated Financial Statements

15. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (Continued)

(a) **The Group's investment in VTBM is analysed as follows:**

	The Group	
	2008	2007
	US$	US$
Unlisted investments, at cost	**465,000**	465,000
Share of post-acquisition profits	**308,767**	328,939
Share of net assets	**773,767**	793,939

(b) **Summary of financial information on VTBM, not adjusted for the percentage of ownership held by the Group:**

	The Group	
	2008	2007
	US$	US$
Non-current assets	**1,987,775**	2,207,278
Current assets	**1,081,650**	1,450,199
Non-current liabilities	**(183,754)**	(438,212)
Current liabilities	**(389,646)**	(658,170)
Net assets	**2,496,025**	2,561,095
Revenue	**4,483,741**	4,793,449
Profits	**259,896**	546,946
Dividend declared	**(324,966)**	–

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	2008	2007
	US$	US$
Unlisted shares		
Investment at cost	**65,464,712**	63,088,712
Share-based payments	**135,276**	–
	65,599,988	63,088,712

Notes to the Consolidated Financial Statements

16. INVESTMENT IN SUBSIDIARIES (Continued)

Details of the subsidiaries as at 31 December 2008 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of subsidiaries	Place and date of incorporation, establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
Vietnam Manufacturing and Export Processing Co., Limited	Vietnam 5 March 1992	US$58,560,000/ US$58,560,000	100	–	Manufacture and sales of motorbikes and related spare parts
Chin Zong Trading Co., Limited	Taiwan 6 July 2007	US$4,528,712/ US$9,057,424	100	–	Sales of motor vehicles and motorbikes and related spare parts
Vietnam Casting Forge Precision Limited	Vietnam 12 April 2002	US$4,500,000/ US$4,500,000	–	100	Manufacture spare parts for motorbikes and motor vehicles
C.Q.S. Molds Inc.	Vietnam 14 June 2002	US$1,200,000/ US$1,200,000	–	100	Manufacture and process of moulds and jigs
PT Sanyang Industri Indonesia	Indonesia 20 February 2006	US$6,400,000/ US$7,000,000	99	1	Manufacture and sales of motorbikes and related spare parts

17. INVENTORIES

	The Group 2008 US$	2007 US$
Raw materials	**25,151,664**	26,728,528
Tools and supplies	**867,625**	819,169
Work in progress	**905,644**	3,223,197
Finished goods	**3,203,798**	7,812,399
Merchandise inventories*	**5,883,317**	4,550,465
	36,012,048	43,133,758
Allowance for inventory impairment	**(2,357,815)**	(2,295,395)
Net realisable value	**33,654,233**	40,838,363

* *Merchandise inventories mainly represent spare parts kept for repairs and maintenance.*

Inventories with carrying amount of US$2,730,177 were written off as a result of the fire that occurred during the year (Note 6).

Notes to the Consolidated Financial Statements

17. INVENTORIES (Continued)

The analysis of the amount of inventories recognised as expenses is as follows:

	The Group 2008 US$	2007 US$
Carrying amount of inventories sold	**165,915,018**	189,914,342
Write down of inventories	**413,713**	1,865,912
	166,328,731	191,780,254

Movements in allowance for inventory impairment were as follows:

	The Group 2008 US$	2007 US$
At the beginning of the year	**2,295,395**	751,140
Additions	**413,713**	1,865,167
Through acquisition of a subsidiary *(Note 31)*	**180,319**	–
Utilisation	**(531,612)**	(320,912)
At the end of the year	**2,357,815**	2,295,395

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	The Group 2008 US$	2007 US$	The Company 2008 US$	2007 US$
Trade receivables *(Notes 18(i) and 18(ii))*	**5,357,300**	2,539,534	**–**	–
Non-trade receivables *(Note 18(iii))*	**3,664,225**	7,575,119	**161,988**	3,525,666
Prepayments *(Note 18(iv))*	**8,534,211**	5,250,947	**171**	3,982
Amounts due from related parties *(Note 30(c))*	**1,490,466**	3,200,875	**–**	–
Amounts due from a subsidiary	**–**	–	**32,000,000**	–
At 31 December	**19,046,202**	18,566,475	**32,162,159**	3,529,648

Amount due from a subsidiary of the Company is in respect of the dividend receivable from VMEP.

(i) Trade receivables

All of the trade receivables are expected to be recovered within one year. The Group's credit policy is set out in Note 33(a).

An aging analysis of the trade receivables of the Group, including trade receivables due from related parties set out in Note 30(c), is as follows:

	The Group 2008 US$	2007 US$
Within three months	**6,057,660**	4,632,505
More than three months but within one year	**511,559**	263,143
More than one year	**–**	44,778
	6,569,219	4,940,426

Notes to the Consolidated Financial Statements

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (Continued)

(ii) Trade receivables that are not impaired

The aging analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	The Group 2008 US$	2007 US$
Neither past due nor impaired	**6,512,696**	4,543,280
Less than 1 month past due	**31,936**	383,957
1 to 3 months past due	**24,587**	13,189
	56,523	397,146
	6,569,219	4,940,426

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(iii) Non-trade receivables

	The Group		The Company	
	2008 US$	2007 US$	**2008 US$**	2007 US$
Deductible VAT	**1,578,394**	1,305,111	–	–
Discount on spare parts purchased	–	562	–	–
Import tax refundable	**670,490**	1,194,126	–	–
Interest receivable	**148,935**	369,840	**148,935**	–
Listing fee recoverable	–	3,511,146	–	3,511,146
Others	**1,266,406**	1,194,334	**13,053**	14,520
At 31 December	**3,664,225**	7,575,119	**161,988**	3,525,666

The above balances are unsecured, interest-free and have no fixed terms of repayment. They are expected to be recovered or utilised within one year.

(iv) Prepayments

	The Group		The Company	
	2008 US$	2007 US$	**2008 US$**	2007 US$
Prepayments	**535,581**	4,314	**171**	3,982
Advances to suppliers	**7,998,630**	5,246,633	–	–
At 31 December	**8,534,211**	5,250,947	**171**	3,982

Notes to the Consolidated Financial Statements

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets are in respect of the following:

	The Group/The Company	
	2008	2007
	US$	*US$*
Assets-backed securities *(Note 19(i))*	**68,100,000**	–
Mutual funds *(Note 19(ii))*	**7,458,351**	–
	75,558,351	–

(i) Assets-backed securities

The credit ratings of the Assets-Backed Securities ("ABS") were AAA*. The ABS are secured by their respective security issuers' assets, which primarily consist of the student loans originated under the Federal Family Education Loan Program created under the United States Higher Education Act. The ABS's maturity dates range from 15 March 2028 to 27 January 2042. The interest rate is periodically reset through an auction on every 28 days and settled at the end of each auction period.

The securities' issuer and the amount of the ABS held by the Group and the Company are as follows:

	The Group/The Company	
Security issuer	**2008**	2007
	US$	*US$*
SLM Student Loan Trust ("SSLT") 2002-7	**26,950,000**	–
SSLT 2003-2	**20,000,000**	–
SSLT 2006-7	**20,000,000**	–
Access Group, Inc.	**1,150,000**	–
At fair value	**68,100,000**	–

The ABS are denominated in US$ and bear interest rates ranging from 3.33% to 3.38% as at 31 December 2008.

The Group and the Company acquired the ABS through an investment bank (the "Investment Bank") in the beginning of 2008. In August 2008, the Investment Bank announced an auction rate notes purchase programme to run from January 2009 to January 2010, offering to buy at par auction rate securities it had sold to its retail clients. The programme is aimed at creating liquidity for its retail clients. The ABS held by the Company and the Group as at 31 December 2008 was covered in the programme.

On 5 January 2009, the Company disposed of its entire investment in ABS, totalling US$68,100,000 to the Investment Bank. There is no gain or loss arising from the disposal (Note 36).

The ABS as at 31 December 2008 was pledged to the Investment Bank as collateral of interest bearing borrowings as set out in Note 24(a).

Notes to the Consolidated Financial Statements

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(ii) Mutual funds

The credit ratings of the mutual funds were AAAm*. The portfolio of the mutual funds' assets comprise commercial paper, certificates of deposit, agency notes and bonds, time deposit and repurchase orders, and floating rate notes.

The funds' issuer is an open-ended investment company which is listed on the Irish Stock Exchange. Details of the funds held by the Group and the Company as at 31 December are as follows:

Fund issuer	The Group/The Company 2008 US$	2007 US$
Institutional Cash Series Plc.		
– Institutional US Dollar Liquidity Fund denominated in US$	**7,403,365**	–
– Institutional Euro Liquidity Fund denominated in EURO	**54,986**	–
At fair value	**7,458,351**	–

The Group follows the guidance of IAS 39, Financial Instruments: Recognition and Measurement, when determining whether an investment in available-for-sale financial asset is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying amount, and the expected time span the Group will hold on to this investment.

* *The credit ratings are based on rating agency, Standard and Poors' rating.*

20. PLEDGED BANK DEPOSITS

	The Group 2008 US$	2007 US$
Pledged bank deposits		
– denominated in VND	**7,851,995**	9,822,323
– denominated in US$	**64,400**	–
	7,916,395	9,822,323

Bank deposits have been pledged to banks as security for certain banking facilities (Note 24).

The effective interest rates relating to pledged bank deposits per annum are as follows:

	The Group 2008	2007
Effective interest rates – VND	**6.59% to 14.40%**	3.50% to 6.64%
Effective interest rates – US$	**5.75%**	–

Notes to the Consolidated Financial Statements

21. TIME DEPOSITS MATURING AFTER THREE MONTHS

	The Group	
	2008	2007
	US$	*US$*
Time deposits maturing after three months		
– denominated in VND	**337,562**	13,243,810
– denominated in US$	**4,565,000**	–
	4,902,562	13,243,810

The effective interest rates per annum relating to time deposits maturing after three months are as follows:

	The Group	
	2008	2007
Effective interest rates – VND	**10.00%**	6.60% to 8.76%
Effective interest rates – US$	**5.80%**	–

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Denominated in US$	**7,666,577**	81,044,254	**384,757**	76,127,100
Denominated in NTD	**4,267,787**	4,776,205	**–**	–
Denominated in Hong Kong Dollar (“HK$”)	**5,002,128**	14,392	**5,002,128**	14,392
Denominated in VND	**30,449,519**	39,861,898	**–**	–
Denominated in EUR	**14,398**	–	**14,398**	–
Denominated in IDR	**39,323**	–	**–**	–
Total cash and cash equivalents	**47,439,732**	125,696,749	**5,401,283**	76,141,492

The effective interest rates relating to cash and cash equivalents denominated in US$, NTD, HK$, VND, EUR, and IDR per annum are set out as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
Effective interest rates – US$	**0.00% to 4.80%**	1.25% to 6.00%	**0.00%**	1.25% to 6.00%
Effective interest rates – NTD	**0.10% to 2.48%**	0.10% to 2.16%	**–**	–
Effective interest rates – HK$	**0.00%**	1.50%	**0.00%**	1.50%
Effective interest rates – VND	**5.65% to 17.20%**	5.64% to 9.30%	**–**	–
Effective interest rates – EUR	**0.00%**	–	**0.00%**	–
Effective interest rates – IDR	**1.50% to 2.00%**	–	**–**	–

Notes to the Consolidated Financial Statements

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	US$	*US$*	**US$**	*US$*
Trade payables *(Note 23(i))*	**8,878,956**	18,045,969	**–**	–
Other payables and accrued operating expenses *(Note 23(ii))*	**6,978,450**	14,087,056	**453,392**	329,465
Advances from customers	**2,576,120**	4,313,555	**–**	–
Amounts due to related parties *(Note 30(d))*	**3,848,070**	9,473,325	**–**	–
Amount due to a subsidiary	**–**	–	**82,426**	33,992
	22,281,596	45,919,905	**535,818**	363,457

(i) Trade payables

An aging analysis of trade payables of the Group including trade payables due to related parties as set out in Note 30(d) is as follows:

	The Group	
	2008	2007
	US$	*US$*
Within three months	**9,745,234**	25,411,020
More than three months but within one year	**2,677,091**	1,738,385
More than one year but within five years	**304,701**	369,889
	12,727,026	27,519,294

(ii) Other payables and accrued operating expenses

	The Group		The Company	
	2008	2007	**2008**	2007
	US$	*US$*	**US$**	*US$*
Other tax payables	**997,462**	3,352,291	**–**	–
Commission and bonuses payable to dealers	**1,675,263**	4,236,773	**–**	–
Accrued expenses	**2,210,725**	4,085,179	**453,392**	329,465
Other payables	**2,095,000**	2,412,813	**–**	–
	6,978,450	14,087,056	**453,392**	329,465

The above balances are expected to be settled within one year.

Notes to the Consolidated Financial Statements

24. INTEREST-BEARING BORROWINGS

(a) Current

	The Group		The Company	
	2008	2007	**2008**	2007
	US$	US$	**US$**	US$
Bank borrowings – secured	**39,768,506**	12,900,000	**24,735,827**	–
Bank borrowings – unsecured	**–**	500,000	**–**	–
Current portion of long-term borrowings – secured *(Note 24(b))*	**25,523**	25,523	**–**	–
	39,794,029	13,425,523	**24,735,827**	–

The above secured borrowings of the Group were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	The Group	
	2008	2007
	US$	US$
Pledged bank deposits *(Note 20)*	**7,847,769**	9,073,025
Available-for-sale financial assets *(Note 19(i))*	**68,100,000**	–

Interest rates per annum of the above borrowings are as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
Short-term interest – bearing borrowings	**2.35% to 5.23%**	3.41% to 7.35%	**2.35%**	–

(b) Non-current

	The Group	
	2008	2007
	US$	US$
Bank borrowings – secured	**70,226**	95,749
Less: Amount due within one year *(Note 24(a))*	**(25,523)**	(25,523)
	44,703	70,226

Notes to the Consolidated Financial Statements

24. INTEREST-BEARING BORROWINGS (Continued)

(b) Non-current (Continued)

The above secured borrowings were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	The Group 2008 US$	2007 US$
Pledged bank deposits *(Note 20)*	**68,626**	749,298

Interest rates per annum of the above non-current borrowings are as follows:

	The Group 2008	2007
Long-term interest-bearing borrowings	**6.90%**	6.90%

(c) Maturity of borrowings

The maturity profile of the interest-bearing borrowings of the Group and the Company as at each of the balance sheet dates is as follows:

	The Group		The Company	
	2008 US$	2007 US$	**2008 US$**	2007 US$
Within one year	**39,794,029**	13,425,523	**24,735,827**	–
More than one year and within three years	**44,703**	70,226	**–**	–
	39,838,732	13,495,749	**24,735,827**	–
Less: Borrowings classified as current liabilities	**(39,794,029)**	(13,425,523)	**(24,735,827)**	–
Non-current borrowings	**44,703**	70,226	**–**	–

25. INCOME TAX (RECOVERABLE)/PAYABLE

(a) Current taxation in the balance sheet represents:

	The Group 2008 US$	2007 US$
At 1 January	**1,352,163**	(363,206)
Provision for tax for the year	**1,796,462**	4,001,090
Under-provision in prior years	**2,882,946**	33,380
Income tax paid	**(6,864,777)**	(2,319,101)
At 31 December	**(833,206)**	1,352,163
Represented by:		
Income tax recoverable	**(866,615)**	(3,573)
Income tax payable	**33,409**	1,355,736
	(833,206)	1,352,163

25. INCOME TAX (RECOVERABLE)/PAYABLE (Continued)

(b) Recognised deferred tax assets:

The Group

Deferred tax arising from:

	Allowance for inventories US$	Losses as a result of fire US$	Tax losses US$	Total US$
At 1 January 2007	133,946	–	–	133,946
Credited to the income statement	169,636	–	–	169,636
At 31 December 2007	303,582	–	–	303,582
Credited to the income statement	75,518	534,407	–	609,925
Through acquisition of a subsidiary *(Note 31)*	–	–	215,528	215,528
At 31 December 2008	379,100	534,407	215,528	1,129,035

(c) Deferred tax assets not recognised:

The Group has deferred tax assets in respect of cumulative tax losses of US$907,520 as at 31 December 2008. In accordance with the accounting policy set out in Note 3(j), the Group has recognised deferred tax assets in respect of cumulative tax losses of US$215,528 as the Group considers that future taxable profits against which the losses can be utilised to the full extent. The Group has not recognised deferred tax assets in respect of the remaining tax losses of US$691,992. The tax losses may be carried forward for 5 years following the year the loss was incurred.

26. PROVISIONS

The Group

	Warranties US$	Severance pay allowance US$	Total US$
At 1 January 2007	1,054,985	428,382	1,483,367
Additions	4,541,526	289,628	4,831,154
Utilisation during the year	(4,336,630)	(31,208)	(4,367,838)
At 31 December 2007	1,259,881	686,802	1,946,683
Additions	3,389,433	715,568	4,105,001
Utilisation during the year	(3,801,002)	(464,558)	(4,265,560)
At 31 December 2008	848,312	937,812	1,786,124

Further details in respect of the warranties and severance pay allowance are set out in Note 34(e).

Notes to the Consolidated Financial Statements

27. CAPITAL AND RESERVES

(a) Share capital

The Group/the Company

Authorised:

	Ordinary shares of US$1.00 Number of Shares	Ordinary shares of US$1.00 Amount *US$*	Ordinary shares of HK$0.01 Number of Shares	Ordinary shares of HK$0.01 Amount *US$*
At 1 January 2007	200,000,000	200,000,000	–	–
Creation *(a(i))*	–	–	10,000,000,000	12,811,479
Cancellation *(a(i))*	(200,000,000)	(200,000,000)	–	–
At 31 December 2007	–	–	10,000,000,000	12,811,479
At 31 December 2008	–	–	10,000,000,000	12,811,479

Issued and fully paid:

	Ordinary shares of US$1.00 Number of Shares	Ordinary shares of US$1.00 Amount *US$*	Ordinary shares of HK$0.01 Number of Shares	Ordinary shares of HK$0.01 Amount *US$*
At 1 January 2007	58,560,000	58,560,000	–	–
Issue of shares *(a(i))*	–	–	58,560,000	75,024
Cancellation of shares *(a(i))*	(58,560,000)	(58,560,000)	–	–
Capitalisation issue *(a(ii))*	–	–	673,440,000	862,776
Issue of shares for Initial Public Offering *(a(iii))*	–	–	175,680,000	225,072
At 31 December 2007	–	–	907,680,000	1,162,872
At 31 December 2008	–	–	907,680,000	1,162,872

(i) Pursuant to the written resolution of the shareholders passed on 24 November 2007:

- the authorised share capital of the Company was increased by HK$100,000,000 by the creation of 10,000,000,000 shares of HK$0.01 par value each (the "Shares") such that the authorised share capital of the Company would be US$200,000,000 and HK$100,000,000 divided into 200,000,000 shares of US$1.00 each and 10,000,000,000 Shares of HK$0.01 each (the "Increase");

- following the Increase, the Company repurchased all shares of US$1.00 each in issue from SY International Limited as to 52,704,000 Shares and from Indopark Holdings Limited as to 5,856,000 Shares for an amount equivalent to their nominal value; and issued 58,560,000 new Shares for an equivalent amount to the following shareholders:

Shareholders	*Number of new Shares*
SY International Limited	52,704,000
Indopark Holdings Limited	5,856,000

- following the above, the authorised but unissued share capital of the Company was reduced by the cancellation of all unissued shares of US$1.00 each in the Company.

Notes to the Consolidated Financial Statements

27. CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(ii) 673,440,000 shares of HK$0.01 each were issued through the capitalisation of share premium on 20 December 2007.

(iii) On 20 December 2007, 175,680,000 additional ordinary shares were issued and offered for subscription at a price of HK$3.75 per share upon the listing of the Company's shares on the main board of the Stock Exchange. Of the proceeds, US$225,072 representing the par value were credited to the Company's share capital. The remaining proceeds of US$84,176,952 were credited to the share premium account.

(iv) All new ordinary shares issued during the year ended 31 December 2007 rank equally with regard to the Company's residual assets.

(b) Nature and purpose of reserves

(i) Share premium

Share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

Capital reserve represents the fair value of the actual or estimated number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payments (Note 3(l)).

(iii) Exchange reserve

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iv) Statutory reserves

Statutory reserves at 31 December 2008 represented statutory reserve of Chin Zong.

In accordance with Chin Zong's Articles of Association, after Chin Zong has paid all taxes due at the end of the fiscal year, Chin Zong shall offset its accumulated losses and set aside 10% of the net profit as the statutory reserve before distribution of profit.

(v) Acquisition of minority interests

On 27 May 2008, VMEP entered into a sale and purchase agreement with the minority equity holder of C.Q.S., a subsidiary of VMEP, to acquire the remaining 30% equity interest held by the minority equity holder for a cash consideration of US$465,000. The difference of US$37,047 between the net asset value of minority interests acquired and the cash consideration of US$465,000 was credited to the retained profits.

(vi) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was US$151,013,123 (2007: US$141,233,523).

Notes to the Consolidated Financial Statements

27. CAPITAL AND RESERVES (Continued)

(c) Statement of changes in equity

The Company

	Paid-in capital *US$*	Share premium *US$*	Capital reserve *US$*	Retained profits *US$* *(Note 9)*	Total equity *US$*
At 31 December 2006	58,560,000	–	–	(15,472)	58,544,528
Change of par value	(58,484,976)	58,484,976	–	–	–
Issue of shares through Initial Public Offering	225,072	84,176,952	–	–	84,402,024
Issue of shares on capitalisation of share premium account	862,776	(862,776)	–	–	–
Share issue expenses	–	(9,817,674)	–	–	(9,817,674)
Profit for the year	–	–	–	48,267,517	48,267,517
Dividends	–	–	–	(39,000,000)	(39,000,000)
At 31 December 2007	1,162,872	131,981,478	–	9,252,045	142,396,395
Profit for the year	–	–	–	29,562,369	29,562,369
Equity-settled share-based payments	–	–	1,274,141	–	1,274,141
Dividends	–	(19,782,769)	–	–	(19,782,769)
At 31 December 2008	1,162,872	112,198,709	1,274,141	38,814,414	153,450,136

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The gearing ratio for the year ended 31 December 2008 is 23% (2007: 7%). The gearing ratio is calculated by dividing total interest-bearing borrowings with total equity.

The Group is not subject to externally imposed capital requirements.

28. SHARE-BASED PAYMENTS

A share option scheme was adopted pursuant to a written resolution of the shareholders of the Company passed on 24 November 2007 (the "Share Option Scheme").

The purpose of the Share Option Scheme is to provide an incentive for the qualified participants to work with commitment towards enhancing the value of the Company and the shares for the benefit of the shareholders and to retain and encourage qualified participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Notes to the Consolidated Financial Statements

28. SHARE-BASED PAYMENTS (Continued)

The qualified participants include (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the board has contributed or will contribute to the Group.

On 4 February 2008 (the "Grant Date"), the Company granted 20,000,000 share options at a subscription price of HK$2.90 per share to certain qualified participants.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting condition and exercisable percentage condition	Up to %	Contractual life of options
Options granted to the directors of the Group				
– on 4 February 2008	2,703,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
Options granted to the employees of the Group				
– on 4 February 2008	9,280,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
Options granted to the employees of the ultimate holding company, Sanyang Industry Co., Ltd.				
– on 4 February 2008	8,017,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
	20,000,000			

(b) The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price HK$	Number of options
Outstanding at 1 January 2008	2.90	–
Granted during the year	2.90	20,000,000
Lapsed during the year	2.90	(1,344,000)
Outstanding at 31 December 2008		18,656,000
Exercisable at 31 December 2008		3,731,200

No share option has been exercised during the year ended 31 December 2008.

The options outstanding at 31 December 2008 had an exercise price of HK$2.90 and a contractual life of 4.08 years.

Notes to the Consolidated Financial Statements

28. SHARE-BASED PAYMENTS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured with reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	At 4 February 2008 (Grant Date)
Fair value at measurement date	HK$0.88
Share price	HK$2.90
Exercise price	HK$2.90
Expected volatility	55.15%
Option life	5 years
Expected dividends	7%
Risk free interest rate	2.06%

The expected volatility was determined with reference to the volatilities of the comparable companies. The expected annual dividend yield was based on the projected dividend yield of shares of the Company as provided by the management of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29. CONTINGENT ASSETS/LIABILITY

Contingent asset

As disclosed in Note 6, during the year, a fire broke out in one of VMEP's factories and has resulted in losses to the Group's inventories and property, plant and equipment. The Group submitted an insurance claim of approximately US$3 million in September 2008 for the losses. Up to the date of issue of these financial statements, the Group has not received a written confirmation from the insurance company as to agreement to the claim. No asset is recognised in respect of this insurance claim.

Contingent liability

During the year, the Vietnam Ministry of Finance applied in practice for the first time specific provisions of Circular 40/2008/TT-BTC ("Circular 40") which provides guidelines on customs valuation of import and export goods for customs duty purposes. Under Circular 40, companies that import goods and pay royalties and license fees related to the goods being imported that have to be paid as a condition of sale of the goods being valued, to the extent that such royalty and license fee are not included in the price of the imported goods may be required to add the royalty and licensing fee payments to the customs value of the imported goods for customs duty purposes.

The impact of the application of Circular 40 on VMEP is still uncertain in view of the various interpretations of this new circular as well as the lack of authoritative precedents in the application of this regulation.

While VMEP has to pay royalty fees on the sale of SYM branded motorbikes, it believes that no further liabilities should arise under Circular 40 as the payment of royalty is not directly related to, nor is it a condition of, the imports of the knock down parts.

Notes to the Consolidated Financial Statements

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2008, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Sanyang Industry Co., Ltd. ("Sanyang")	The ultimate holding company
Xia Shing Xiamen Motorcycle Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Teamworld Industries Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Plassen International Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinlead International Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Quingzhou Engineering Industry Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinfon Commercial Bank	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Vietnam Three Brothers Machinery Industry Co., Limited	The associate of the Company and a non-wholly owned subsidiary of Sanyang
Sanyang Vietnam Automobile Co., Ltd. (formerly known as Sanyang Motor Vietnam Co., Limited)	A subsidiary of SY International Limited, the equity holder of the Company
Sanyang Global Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinda Investment Company Limited	A subsidiary of Sanyang, the controlling equity holder of the Group

Notes to the Consolidated Financial Statements

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	2008 US$	2007 US$
Sales of finished goods and spare parts: *(i)*		
PT Sanyang Industri Indonesia	–	27,859
Sanyang Industry Co., Ltd.	1,361,651	19,190,762
Sanyang Vietnam Automobile Co., Ltd.	16,559	–
Teamworld Industries Corporation	43,170	84,539
Vietnam Three Brothers Machinery Industry Co., Limited	10,193	–
Xia Shing Xiamen Motorcycle Co., Ltd.	61,417	54,372
	1,492,990	19,357,532
Purchases of raw materials and finished goods: *(ii)*		
Chinlead International Corporation	–	63,948
Quingzhou Engineering Industry Co., Ltd.	324,818	–
Sanyang Industry Co., Ltd.	19,824,726	29,296,649
Sanyang Global Co., Ltd.	2,057,130	–
Teamworld Industries Corporation	–	2,467,486
Vietnam Three Brothers Machinery Industry Co., Limited	3,908,724	4,370,093
Xia Shing Xiamen Motorcycle Co., Ltd.	1,381,315	347,442
	27,496,713	36,545,618
Technology transfer fees: *(iii)*		
Sanyang Industry Co., Ltd.	5,157,019	5,985,566
Technical consultancy fees: *(iv)*		
Sanyang Industry Co., Ltd.	450,000	339,407

(i) Sales of finished goods and spare parts are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(ii) Purchases of raw materials and finished goods are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(iii) Effective from 1 January 2007, technology transfer fees are calculated based on 4% of the net sales of certain products, as defined in the technology licence agreement entered into between VMEP and Sanyang Industry Co., Ltd..

(iv) Technical consultancy fees charged by Sanyang Industry Co., Ltd. are staff costs and other related expenses, as defined in the technical consultancy agreement entered into between the Company and Sanyang Industry Co., Ltd..

Notes to the Consolidated Financial Statements

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring transactions

	2008 US$	2007 US$
Purchases of property, plant and equipment: *(i)*		
Sanyang Industry Co., Ltd.	1,649,695	252,207
Vietnam Three Brothers Machinery Industry Co., Limited	35,564	–
Xia Shing Xiamen Motorcycle Co., Ltd.	929,116	–
	2,614,375	252,207
Disposals of property, plant and equipment: *(i)*		
Sanyang Vietnam Automobile Co., Ltd.	–	3,883,988
Interest income: *(ii)*		
Chinfon Commercial Bank	30,179	662,908
Interest expenses: *(iii)*		
Chinfon Commercial Bank	–	17,869
Transfer of equity interests in PT Sanyang Industri Indonesia: *(Note 31)*		
Sanyang Industry Co., Ltd.	1,188,000	–
Chinda Investment Company Limited	12,000	–

(i) Purchases and disposals of property, plant and equipment were carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(ii) The applicable interest rates on bank deposits with Chinfon Commercial Bank are based on the prevailing market deposit rates.

(iii) The applicable interest rates on bank loans from Chinfon Commercial Bank are based on the prevailing market borrowing rates.

Notes to the Consolidated Financial Statements

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Amount due from related parties

	The Group	
	2008	2007
	US$	*US$*
Trade		
PT Sanyang Industri Indonesia	**–**	24,486
Sanyang Global Co., Ltd.	**440,500**	–
Sanyang Industry Co., Ltd.	**691,596**	1,211,450
Sanyang Vietnam Automobile Co., Ltd.	**6,455**	–
Teamworld Industries Corporation	**–**	49,292
Vietnam Three Brothers Machinery Industry Co., Ltd.	**10,193**	–
Xia Shing Xiamen Motorcycle Co., Ltd.	**63,175**	1,115,664
Subtotal	**1,211,919**	2,400,892
Non-trade		
Sanyang Industry Co., Ltd.	**–**	523,052
Sanyang Vietnam Automobile Co., Ltd.	**278,467**	–
Vietnam Three Brothers Machinery Industry Co., Ltd.	**80**	–
Quingzhou Engineering Industry Co., Ltd.	**–**	276,931
Subtotal	**278,547**	799,983
Total	**1,490,466**	3,200,875

Trade balances due from related parties are unsecured, interest-free and are expected to be recovered within 60 days. Non-trade balances due from related parties are expected to be recovered within one year.

The non-trade receivables from Sanyang Industry Co., Ltd. relate to prepayments made for purchase of inventories.

The non-trade receivables from Sanyang Vietnam Automible Co., Ltd. represent payments on behalf of the Group.

The non-trade receivables from Quingzhou Engineering Industry Co., Ltd. represent prepayments made for purchase of machineries.

Notes to the Consolidated Financial Statements

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Amount due to related parties

	The Group	
	2008	2007
	US$	*US$*
Trade		
Chinlead International Corporation	–	63,948
Sanyang Global Co., Ltd.	**500,103**	–
Sanyang Industry Co., Ltd.	**3,029,424**	8,246,112
Teamworld Industries Corporation	**25,655**	578,120
Vietnam Three Brothers Machinery Industry Co., Limited	**171,014**	222,631
Xia Shing Xiamen Motorcycle Co., Ltd.	**121,874**	362,514
Total	**3,848,070**	9,473,325

Trade payables due to related parties are all unsecured, interest-free and are expected to be settled within ranges from 30 to 60 days.

(e) Key management personnel remuneration

	2008	2007
	US$	*US$*
Short-term employee benefits	**1,136,280**	612,994
Equity-settled share-based payment expenses	**255,250**	–
	1,391,530	612,994

Total remuneration is included in "staff costs" as set out in Note 7(a).

Notes to the Consolidated Financial Statements

31. ACQUISITION OF A SUBSIDIARY

On 7 August 2008, the Company and Chin Zong entered into a sale and purchase agreement with Sanyang and Chinda Investment Company Limited ("Chinda"), a subsidiary of Sanyang, pursuant to which, the Company and Chin Zong agreed to acquire from Sanyang and Chinda 99% and 1% respectively of equity interests in PT Sanyang Industri Indonesia for a consideration of US$1,200,000 in aggregate.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts *US$*	Fair value adjustments *US$*	Recognised value on acquisitions *US$*
Property, plant and equipment *(Note 12)*	758,600	–	758,600
Inventories *(Note 17)*	467,778	(180,319)	287,459
Trade and other receivables	413,264	–	413,264
Cash and cash equivalents	277,568	–	277,568
Deferred tax assets *(Note 25(b))*	–	215,528	215,528
Trade and other payables	(761,170)	–	(761,170)
Net identifiable assets and liabilities	1,156,040	35,209	1,191,249
Goodwill on acquisition			8,751
Consideration paid, satisfied in cash			1,200,000
Cash acquired			(277,568)
Net cash outflow			922,432

The acquisition contributed revenue amounting to US$251,433 and loss after tax amounting to US$271,672 for the year ended 31 December 2008.

32. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the year end not provided for were as follows:

	The Group 2008 US$	2007 US$
Contracted for	**5,055,650**	986,196
Authorised but not contracted for	**5,932,589**	12,246,898
	10,988,239	13,233,094

The capital commitments contracted for as at 31 December 2008 was in respect of the construction of a new research and development centre. The capital commitments authorised but not contracted for as at 31 December 2008 was in respect of the construction of a new painting workshop.

Notes to the Consolidated Financial Statements

32. COMMITMENTS (Continued)

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2008	2007
	US$	*US$*
Within 1 year	**380,675**	179,178
After 1 year but within 5 years	**851,150**	672,983
After 5 years	**2,647,474**	3,357,813
	3,879,299	4,209,974

The leases run for an initial period of one to fifty years.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by the management in accordance with prevailing economic and operating conditions. In the opinion of the directors, the Group has taken appropriate quality control measures to mitigate the effect from any claims caused by products, which may affect adversely its financial results.

The Group's financial assets comprise mainly cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, time deposits maturing after three months, available-for-sale financial assets and amounts due from related parties. The Group's financial liabilities comprise interest-bearing borrowings, trade and other payables, and amounts due to related parties.

The Group had no derivative instruments that are designated and qualified as hedging instruments for the year ended 31 December 2008. Exposure to credit, interest rate, currency risk and liquidity risks arises in the normal course of the Group's business.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade receivables, other receivables and prepayments

The Group's exposure to credit risk is minimal as the Group generally offers no credit terms to domestic customers, which accounted for approximately 89% (2007: 92%) of total customers. Overseas customers are generally granted credit terms ranging from 30 days to 60 days. The Group does not have any significant exposure to any individual customer or counter party.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due; 18% (2007: 49%) of the trade receivables as at year end are due from related parties which have a good trading and settlement record with the Group.

The Group does not collect collateral in respect of trade receivables, other receivables and prepayments.

The maximum exposure to credit risk is represented by the carrying amounts of each financial asset in the consolidated balance sheets.

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(a) Credit risk (Continued)

(i) Trade receivables, other receivables and prepayments (Continued)

The maximum exposure to credit risk for trade receivables at the balance sheet dates by business type was as follows:

	2008 US$	2007 US$
Manufacture and sales of motorbikes	**4,126,191**	2,239,186
Manufacture and sales of spare parts and engines	**2,404,839**	2,403,701
Moulds and repair services	**38,189**	297,539
	6,569,219	4,940,426

(ii) Deposits with banks

All the bank deposits are deposited with quality financial institutions with no significant credit risk. The management does not expect any losses arising from non-performance of these financial institutions.

(iii) Available-for-sale financial assets

Due to the note set out in Note 19(i), the management considers the credit risk exposure to investment in ABS is minimal.

(b) Interest rate risk

The Group's and the Company's exposure to interest rate risk relates to interest bearing financial assets and liabilities.

(i) Interest-bearing financial assets

Interest-bearing financial assets include pledged bank deposits, time deposits maturing after three months, cash and cash equivalents and available-for-sale financial assets.

Pledged bank deposits and time deposits maturing after three months are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group and for higher yield returns than cash at banks. The Group manages its interest rate yield by prudently balancing the placement of deposits with varying maturity periods.

Interest rate risk in investment in ABS is the risk to the interest income deriving from the ABS due to uncertainty in the future interest rate. The interest rate is periodically reset through an auction on every 28 days.

(ii) Interest-bearing financial liabilities

Interest-bearing financial liabilities include bank borrowings. The Group's and the Company's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group and the Company are disclosed in Note 24.

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(b) Interest rate risk (Continued)

(ii) Interest-bearing financial liabilities (Continued)

At the balance sheet date, the interest rate profile of the Group's and the Company's interest-bearing borrowings was as follows:

The Group	2008 Effective interest rate %	2008 US$	2007 Effective interest rate %	2007 US$
Variable rate instrument				
Interest-bearing borrowings	4.36%	39,838,732	3.08%	13,495,749
Total net borrowings		39,838,732		13,495,749

The Company	2008 Effective interest rate %	2008 US$	2007 Effective interest rate %	2007 US$
Variable rate instrument				
Interest-bearing borrowings	3.52%	24,735,827	–	–

(iii) Sensitivity analysis

As at 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's net profit after tax and retained profits by approximately US$464,576 (2007: decrease of US$133,765) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases, investments and borrowings that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily US$, NTD and HK$.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the year end date. Difference resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

The Group

	Exposure to foreign currencies (expressed in US$)		
2008	***US$***	***NTD***	***HK$***
Trade and other receivables	**3,043,641**	**–**	**13,053**
Cash and cash equivalents	**7,082,526**	**–**	**30,781**
Trade and other payables	**(39,196,993)**	**(361,710)**	**–**
Interest-bearing borrowings	**(15,032,679)**	**–**	**(24,735,827)**
Balance sheet exposure	**(44,103,505)**	**(361,710)**	**(24,691,993)**

	Exposure to foreign currencies (expressed in US$)		
2007	*US$*	*NTD*	*HK$*
Trade and other receivables	5,303,509	–	6,097
Cash and cash equivalents	5,394,543	–	14,391
Trade and other payables	(12,615,613)	(7,031,472)	–
Interest-bearing borrowings	(13,495,749)	–	–
Balance sheet exposure	(15,413,310)	(7,031,472)	20,488

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(c) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

The Company

2008	Exposure to foreign currencies (expressed in US$) US$	NTD	HK$
Trade and other receivables	–	–	13,053
Cash and cash equivalents	–	–	30,781
Interest-bearing borrowings	–	–	(24,735,827)
Balance sheet exposure	–	–	(24,691,993)

2007	Exposure to foreign currencies (expressed in US$) US$	NTD	HK$
Trade and other receivables	–	–	6,097
Cash and cash equivalents	–	–	14,391
Balance sheet exposure	–	–	20,488

(ii) Sensitivity analysis

The following table indicates the instantaneous increase/(decrease) in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group	2008		2007	
	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits US$	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits US$
United States Dollar	5%	(1,810,910)	3%	(387,766)
	(5%)	1,810,910	(3%)	387,766
New Taiwan Dollar	5%	(14,830)	3%	(172,974)
	(5%)	14,830	(3%)	172,974
Hong Kong Dollar	5%	(1,234,600)	3%	615
	(5%)	1,234,600	(3%)	(615)

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(c) Currency risk (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into US$ at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes difference that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2007.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The individual subsidiaries within the Group are responsible for their own cash management, including raising loans to cover the expected cash demands, subject to approval by the Company's board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in Notes 23 and 24.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivatives financial liabilities, which are based on the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group **2008**	**Carrying amount** ***US$***	**Undiscounted contractual cash outflow** ***US$***	**6 months or less** ***US$***	**6-12 months** ***US$***	**1-2 years** ***US$***	**> 2 years** ***US$***
Trade and other payables excluding advances from customers	**19,705,476**	**19,705,476**	**17,659,172**	**2,046,304**	**–**	**–**
Bank borrowings – secured	**39,838,732**	**39,900,382**	**39,838,412**	**14,524**	**27,732**	**19,714**
	59,544,208	**59,605,858**	**57,497,584**	**2,060,828**	**27,732**	**19,714**

2007	Carrying amount *US$*	Undiscounted contractual cash outflow *US$*	6 months or less *US$*	6-12 months *US$*	1-2 years *US$*	> 2 years *US$*
Trade and other payables excluding advances from customers	41,606,350	41,606,350	31,448,378	10,157,972	–	–
Bank borrowings – secured	12,995,749	13,111,217	13,018,942	15,379	29,450	47,446
Bank borrowings – unsecured	500,000	507,400	507,400	–	–	–
	55,102,099	55,224,967	44,974,720	10,173,351	29,450	47,446

Notes to the Consolidated Financial Statements

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

(d) Liquidity risk (Continued)

The Company **2008**	**Carrying amount** ***US$***	**Undiscounted contractual cash outflow** ***US$***	**6 months or less** ***US$***	**6-12 months** ***US$***	**1-2 years** ***US$***	**> 2 years** ***US$***
Trade and other payables	535,818	535,818	535,818	–	–	–
Bank borrowings – secured	24,735,827	24,735,827	24,735,827	–	–	–
	25,271,645	25,271,645	25,271,645	–	–	–

2007	Carrying amount *US$*	Undiscounted contractual cash outflow *US$*	6 months or less *US$*	6-12 months *US$*	1-2 years *US$*	> 2 years *US$*
Trade and other payables	363,457	363,457	363,457	–	–	–

(e) Business risk

The Group has certain concentration risk of raw materials and finished goods sourcing from related parties. The Group's total purchases of raw materials and finished goods from the related parties amounted to US$27,496,713 (2007: US$36,545,618) which accounted for approximately 22.1% (2007: 28.3%) of the Group's total purchases for the year ended 31 December 2008.

(f) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 due to either the short maturities of these financial instruments or variable market interest rate for long-term bank borrowings.

(g) Estimation of fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2008. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

(i) Bank loans

The carrying amount of bank loans approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

(ii) Available-for-sale financial assets

As the market for the ABS was not active at the balance sheet date, the Group established fair value by using valuation techniques that provided reliable estimates of prices which could be obtained in actual market transactions. These include reference to recent arm's length transactions and the market condition.

The fair value of the mutual funds was established with reference to the quoted market price in the active market.

Notes to the Consolidated Financial Statements

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty are as follows:

(a) Impairment losses on trade receivables, other receivables and prepayments

Impairment losses on trade receivables, other receivables and prepayments are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated income statements in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of distributing and selling products of similar nature. These could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. Management reassesses the estimations at each balance sheet date.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Provisions

(i) Warranties

The provision for warranties relates mainly to motorbikes sold. The provision calculated by management is based on estimates extracted from historical warranty data associated with similar products and services. The calculation requires the use of judgement and estimation.

(ii) Severance pay allowance

Pursuant to the labour regulation in Vietnam, employers are required to pay severance allowance to local employees (half month's salary for every one completed year of service) when the employee leaves the company. The obligation vests and is payable regardless of the reasons for departing the company. The obligation in respect of severance pay allowance is calculated by estimating the amount of benefits that employees have earned in return for their service in the current and prior periods. The calculation requires the use of judgement and estimation. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date.

(f) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisition of a subsidiary, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of their values of the assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed.

Notes to the Consolidated Financial Statements

35. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate holding and ultimate holding company of the Company to be SY International Ltd. and Sanyang Industry Co., Ltd., respectively. Sanyang Industry Co., Ltd. is incorporated in Taiwan.

36. NON-ADJUSTING POST-BALANCE SHEET EVENT

On 5 January 2009, the Company disposed of its entire investment in ABS totalling US$68,100,000. There is no gain or loss arising from such disposal.